



Chief Albert Luthuli Local Municipality  
Annual Financial Statements  
for the year ended 30, June, 2018

Audited  
By

2018 -11- 30

Auditor General South Africa  
Mpumalanga Business Unit

# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## General Information

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**Legal form of entity**

Local Municipality

**Municipal Demarcation Code**

MP301

**Executive Mayor**

Nkosi DP

**Speaker**

Mngomezulu MW

**Chief Whip**

Masuku-Sidu L

**Mayoral committee**

Magagula MP

Nkosi SZ

Makhubela NV

Mnisi-Nkosi N

Cindi NR

Ginindza SV

Dludlu Z.M

Lubede E.J

Mbhele J.S

Motaung R.M

Mthombeni S.F

Ngubeni A

Nkosi A.D

Nkosi G.J

Nkosi J.S

Nkosi V.L

Shabangu L.D

Sikhakhane N.B

Simelane J.D

Thomo N.G

Thabede MJ

Mthembu MS

Malaza MA

Nkosi BG

Ngwenya RD

Nkosi TS

Shongwe JD

Jele JJ

Nkosi TJ

Nhlabathi NC

Khumalo MJ

Mkwanazi HLZ

Zulu GG

Ngoma ZSG

Van Der Walt L

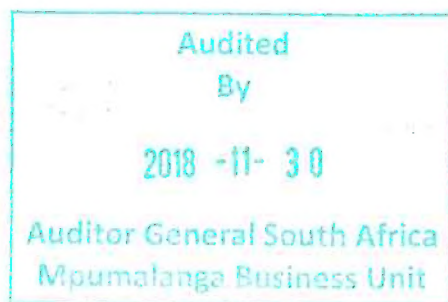
Ntjana ML

Matshaba ML

Hlabathi PZ

Zwane FC

**Councillors**



# Chief Albert Luthuli Local Municipality

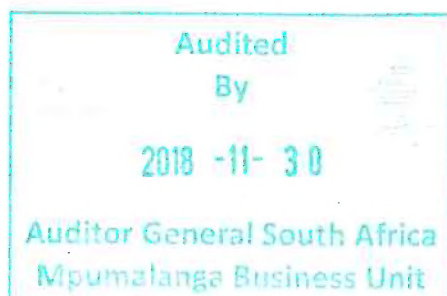
(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## General Information

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	Ndebele JCH Nkosi SP Zulu W Mbuli TG Mnisi ST Khoza DP
<b>Grading of Local Authority</b>	Grade 3
Capacity of local authority	Medium Capacity
<b>Accounting Officer</b>	Dlamini MS
<b>Chief Finance Officer (CFO)</b>	Mnisi MGT
<b>Registered office</b>	28 Kerk Street Carolina Mpumalanga 1185
<b>Business address</b>	28 Kerk Street Carolina Mpumalanga 1185
<b>Postal address</b>	Private Bag X24 Carolina 1185
<b>Bankers</b>	Standard Bank of South Africa Limited
<b>Auditors</b>	Auditor-General of South Africa
<b>Attorneys</b>	Guzana Attorneys Macbeth Ncongwane Attorneys Mokoena Khulani Attorneys TMN Kgomo Attorneys Mohlala Attorneys



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

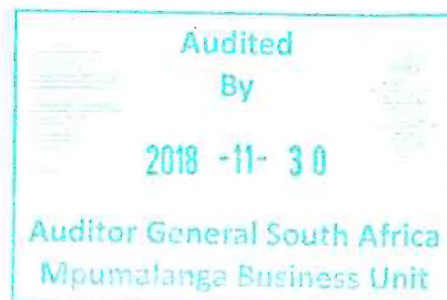
## Index

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)



## **Chief Albert Luthuli Local Municipality**

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

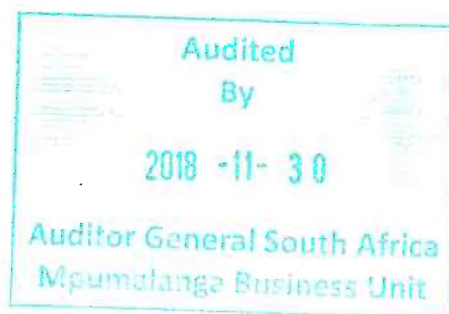
The accounting officer has reviewed the municipality's cash flow forecast for the year to 30, June, 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 7 to 87, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on by:

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**Accounting Officer**  
**Designation**



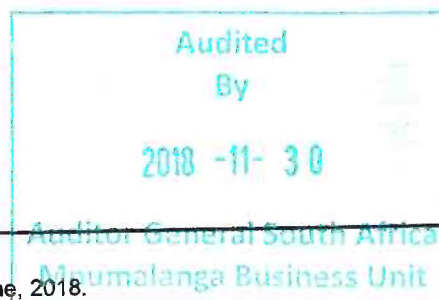


## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Audit Committee Report



We are pleased to present our report for the financial year ended 30, June, 2018.

#### Audit committee members and attendance

The Audit Committee, consisting of independent outside members listed below, meets at least four times per annum as per its approved terms of reference, although additional special meetings may be called as the need arises.

Name of member	Number of meetings attended
Stanley Ngobeni (Professional Accountant, SA Tax professional , RGA ) (Chairperson)	6
Sanele Gumbi (MBA)	5
Siyakhula Simelane CA (SA)	6
Tichoane Zororo ( CIA, CISA, CISM, CRMA, CRISC, CGEIT, 1 COBIT assessor )	1

#### Audit committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from Section 166 of the Municipal Finance Management Act and Circular 65 issued by National Treasury. The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, and it has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein, except that we have not reviewed changes in accounting policies and practices.

#### The effectiveness of internal control

Our review of the internal control environment revealed that there has been a room for improvement in the system of internal control of the municipality and reducing issues of previous year which resulted to unqualification with matters. Furthermore, there are several deficiencies in the system of internal control and/or deviations there were reported by the internal auditors and the Auditor-General. However, the Audit Committee notes management's commitment and action plan to correct deficiencies.

#### In-Year Management and Monthly/Quarterly Report

The municipality have an effective monthly and quarterly reporting system to the Council as required by the Municipal Finance Management Act (MFMA). Furthermore, there is a room for improvement in so far as monitoring and reviews of financial and performance information on a periodically.

#### Performance Management

The AC reviewed functionality of the performance management system and it appears to be functional, however there is a room for improvement in so far as achievement of planned targets is concerned and submission of portfolio of evidence timeously.

#### Risk Management

The AC is of the opinion that municipality's risk management appears to be effective for the better of the year and material respect, and the municipality did implement a comprehensive risk management strategy and related policies. Management has no sound and effective approach has been followed in developing strategic risk management plans and there is a sense of appreciation of the impact of the municipality's risk management framework on the control environment. There is a room for improvement in so far as fraud prevention.

#### Compliance with laws and regulations

A number of non-compliance with the enabling laws and regulations were revealed by Audit Committee, AGSA, and Internal Audit during the year. Thus there is a room for improvement in so far as establishing an effective system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.

# **Chief Albert Luthuli Local Municipality**

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## **Audit Committee Report**

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### **Internal Audit**

The AC is satisfied with the effectiveness of Internal Audit, and recommend that Management and Council should ensure that internal audit is continuously effective. The above conclusion is based on:

- There were no unjustified restrictions or limitations on work of the internal audit.
- Compliance with the IIA's international standards for the professional practice by Internal Auditing unit
- Partial implementation of remedial action plan on internal audit findings by management.

### **External audit**

The AC did review the Auditor-General's proposed audit scope and approach, including coordination of audit effort with internal audit in respect of 2016/17 financial year. Furthermore, the AC evaluated management responses to the reports or findings of the Auditor-General on quarterly basis.

### **Progress in implementation of AGSA findings from prior year**

AGSA recommendations were not fully implemented by management at the time of this report. There is a room for improvement in this regard and the AC recommended to the municipality to prioritise the implementation of recommendations by AGSA.

### **Progress on implementations of Internal audit recommendations**

Internal audit recommendations were not fully implemented by management. There is a room for improvement in this regard and thus, AC recommended to municipality to prioritise the implementation of recommendations by Internal Audit.

### **Implementations of Audit Committee Recommendations by management**

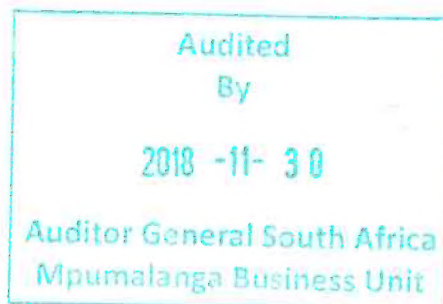
Audit committee recommendations to management were fully implemented. There is a room for improvement in this regard and thus, AC recommended to municipality to fast track the implementation of recommendations by Audit Committee.

### **Conclusion**

The Audit Committee wishes to acknowledge the commitment from Council, management and staff of the municipality. The stability in terms of the political and administrative leadership of the municipality has contributed to these improvements report above. We would also like to thank the Executive Mayor for his support, Councillors, senior management for their efforts and internal audit for their contribution.

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**SAB Ngobeni (Mr)**  
**Chairperson of the Audit Committee**  
**Chief Albert Luthuli Municipality**  
**30 August 2018**



## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Accounting Officer's Report

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The accounting officer submits his report for the year ended 30, June, 2018.

#### 1. Review of activities

##### Main business and operations

Net surplus of the municipality was R102,992,283 (2017: surplus R88,548,345).

#### 2. Going concern

We draw attention to the fact that at 30, June, 2018, the municipality had an accumulated surplus of R 1,044,755,213 (2017: R 941,762,930) .

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

#### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

#### 4. Accounting policies

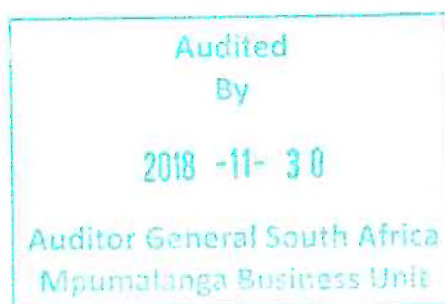
The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations of such Statements issued by the Accounting Standards Board.

#### 5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name  
MS Dlamini

Nationality  
South African





# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Statement of Financial Position as at 30, June, 2018

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	11,640,553	1,962,721
Receivables from exchange transactions	4	58,712,776	46,852,132
Receivables from non-exchange transactions	5	141,443,128	125,839,935
Inventories	6	3,582,735	2,972,962
Other financial assets	7	3,685,056	3,567,722
VAT receivable	51	24,314,779	24,572,953
Operating lease asset	8	263,134	614,739
		<b>243,642,161</b>	<b>206,383,164</b>
<b>Non-Current Assets</b>			
Other financial assets	7	357,325	330,712
Investment property	9	69,903,786	69,903,786
Property, Plant and Equipment	10	1,090,986,744	1,045,479,048
		<b>1,161,247,855</b>	<b>1,115,713,546</b>
<b>Total Assets</b>		<b>1,404,890,016</b>	<b>1,322,096,710</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	11	186,147,484	234,457,798
Finance lease obligation	12	1,133,200	1,398,030
Unspent conditional grants and receipts	13	857,134	1,082,358
Provisions	14	11,292,783	12,580,866
		<b>199,430,601</b>	<b>249,519,052</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	12	1,406,075	2,118,678
Provisions	14	57,529,053	28,003,641
Employee benefit obligation	15	9,283,901	9,587,082
Long Service Award	16	7,784,710	6,405,496
		<b>76,003,739</b>	<b>46,114,897</b>
<b>Total Liabilities</b>		<b>275,434,340</b>	<b>295,633,949</b>
<b>Net Assets</b>		<b>1,129,455,676</b>	<b>1,026,462,761</b>
Accumulated surplus		1,044,755,213	941,762,930
Reserves			
Revaluation reserve	17	84,700,463	84,700,463
<b>Total Net Assets</b>		<b>1,129,455,676</b>	<b>1,026,463,393</b>



\* See Note 52

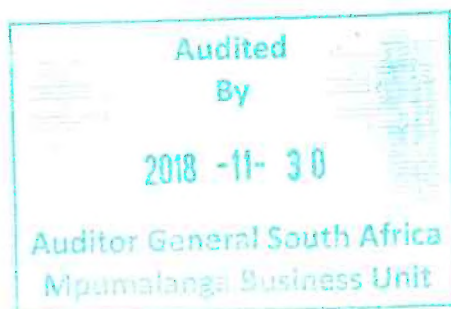
# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	19	62,663,352	37,640,820
Rental income	20	1,176,541	843,265
Interest received - consumers	21	33,407,122	14,837,164
Licences and permits	23	2,745	7,625
Other income	24	3,097,490	8,073,026
Gain on disposal of assets	18	554,057	-
Interest received - investments	22	2,660,776	1,970,757
Fair value adjustments	39	-	16,481,692
<b>Total revenue from exchange transactions</b>		<b>103,562,083</b>	<b>79,854,349</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	25	69,082,052	80,134,532
<b>Transfer revenue</b>			
Government grants and subsidies	26	388,376,893	354,764,813
Donations	27	10,000	642,926
Fines	28	10,083,165	17,161,738
<b>Total revenue from non-exchange transactions</b>		<b>467,552,110</b>	<b>452,704,009</b>
<b>Total revenue</b>	18	<b>571,114,193</b>	<b>532,558,358</b>
<b>Expenditure</b>			
Employee related costs	29	(159,913,775)	(140,016,367)
Remuneration of councillors	30	(18,555,372)	(15,345,055)
Depreciation	31	(43,837,995)	(46,738,563)
Finance costs	32	(27,104,634)	(5,580,269)
Debt Impairment	34	(70,028,039)	(55,128,702)
Bulk purchases	35	(36,735,780)	(77,831,596)
Contracted services	36	(40,686,785)	(33,841,172)
General expenses	38	(55,901,397)	(65,309,997)
Repairs and maintenance		(15,358,133)	(15,696,998)
<b>Total expenditure</b>		<b>(468,121,910)</b>	<b>(455,488,719)</b>
<b>Surplus for the year</b>		<b>102,992,283</b>	<b>77,069,639</b>



\* See Note 52

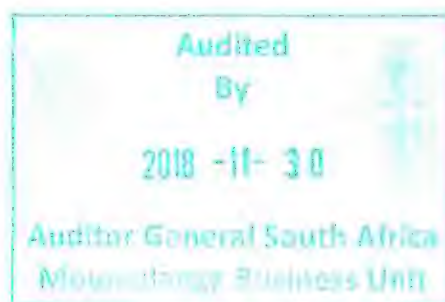
## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	84,700,463	894,710,830	979,411,293
Expenses incorrectly capitalised as WIP	-	(27,089,421)	(27,089,421)
Investment Property incorrectly recorded on PPE	-	(2,618,943)	(2,618,943)
Duplicate Debtor	-	(309,717)	(309,717)
<b>Balance at 01, July, 2016 as restated*</b>	<b>84,700,463</b>	<b>864,692,749</b>	<b>949,393,212</b>
Changes in net assets	-	77,070,181	77,070,181
Surplus for the year	-	77,070,181	77,070,181
<b>Total changes</b>	<b>-</b>	<b>77,070,181</b>	<b>77,070,181</b>
<b>Restated* Balance at 01, July, 2017</b>	<b>84,700,463</b>	<b>941,762,930</b>	<b>1,026,463,393</b>
Changes in net assets	-	102,992,283	102,992,283
Surplus for the year	-	102,992,283	102,992,283
<b>Total changes</b>	<b>-</b>	<b>102,992,283</b>	<b>102,992,283</b>
<b>Balance at 30, June, 2018</b>	<b>84,700,463</b>	<b>1,044,755,213</b>	<b>1,129,455,676</b>



\* See Note 52

# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Service charges		34,253,527	54,840,233
Government grants and subsidies		388,151,669	353,182,882
Interest received - investments		2,660,776	1,970,757
Interest income - consumers		33,407,122	14,808,090
Other receipts		14,369,941	26,631,913
		<u>472,843,035</u>	<u>451,433,875</u>
<b>Payments</b>			
Employee related costs		(174,629,622)	(156,650,224)
Suppliers		(197,344,012)	(164,086,225)
Finance costs		(150,443)	(5,495,646)
		<u>(372,124,077)</u>	<u>(326,232,095)</u>
<b>Net cash flows from operating activities</b>	41	<u>100,718,958</u>	<u>125,201,780</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(89,607,628)	(119,661,131)
Proceeds from sale of property, plant and equipment	10	820,203	-
Movement in operating lease asset		351,605	(267,544)
Movement in Investments		(143,947)	(439,007)
		<u>(88,579,767)</u>	<u>(120,367,682)</u>
<b>Net cash flows from investing activities</b>			
<b>Cash flows from financing activities</b>			
Movement in provision		(1,483,926)	(676,400)
Finance lease receipts/(payments)		(977,433)	(2,592,843)
		<u>(2,461,359)</u>	<u>(3,269,243)</u>
<b>Net cash flows from financing activities</b>			
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>9,677,832</b>	<b>1,564,855</b>
Cash and cash equivalents at the beginning of the year		1,962,721	398,284
<b>Cash and cash equivalents at the end of the year</b>	3	<u>11,640,553</u>	<u>1,963,139</u>



\* See Note 52



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	51,588,976	(1,588,143)	50,000,833	62,663,352	12,662,519	51.1
Rental income	1,997,026	740,519	2,737,545	1,176,541	(1,561,004)	51.2
Interest received - consumers	15,299,038	11,000,000	26,299,038	33,407,122	7,108,084	51.3
Licence and permits	-	2,000	2,000	2,745	745	51.4
Other income	5,621,663	4,930,800	10,552,463	3,097,490	(7,454,973)	51.5
Gain on disposal of assets	140,798	350,300	491,098	554,057	62,959	50.6
Interest received - investment	2,635,604	-	2,635,604	2,660,776	25,172	51.6
<b>Total revenue from exchange transactions</b>	<b>77,283,105</b>	<b>15,435,476</b>	<b>92,718,581</b>	<b>103,562,083</b>	<b>10,843,502</b>	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	84,730,977	1,363,823	86,094,800	69,082,052	(17,012,748)	51.7
Transfer revenue						
Government grants and subsidies	256,126,379	10,495,000	266,621,379	388,376,893	121,755,514	51.8
Donations	-	-	-	10,000	10,000	51.9
Fines	-	100,000	100,000	10,083,165	9,983,165	50.10
<b>Total revenue from non-exchange transactions</b>	<b>340,857,356</b>	<b>11,958,823</b>	<b>352,816,179</b>	<b>467,552,110</b>	<b>114,735,931</b>	
<b>Total revenue</b>	<b>418,140,461</b>	<b>27,394,299</b>	<b>445,534,760</b>	<b>571,114,193</b>	<b>125,579,433</b>	
Expenditure						
Employee related costs	(139,771,173)	(16,101,108)	(155,872,281)	(159,913,775)	(4,041,494)	50.11
Remuneration of councillors	(17,192,909)	(157,800)	(17,350,709)	(18,555,372)	(1,204,663)	50.12
Depreciation and amortisation	(39,145,775)	-	(39,145,775)	(43,837,995)	(4,692,220)	50.13
Finance costs	-	-	-	(27,104,634)	(27,104,634)	50.14
Allowance for debt impairment	(49,706,676)	(2,110,008)	(51,816,684)	(70,028,039)	(18,211,355)	50.15
Repairs and maintenance	(7,994,639)	(4,371,276)	(12,365,915)	(15,358,133)	(2,992,218)	50.16
Bulk purchases	(61,570,000)	-	(61,570,000)	(36,735,780)	24,834,220	50.17
Contracted services	(33,719,066)	(21,861,656)	(55,580,722)	(40,686,785)	14,893,937	50.18
General expenses	(34,853,525)	(6,220,063)	(41,073,588)	(55,901,397)	(14,827,809)	50.19
Grants and subsidies paid	(1,322,342)	280,000	(1,042,342)	-	1,042,342	
<b>Total expenditure</b>	<b>(385,276,105)</b>	<b>(50,541,911)</b>	<b>(435,818,016)</b>	<b>(468,121,910)</b>	<b>(32,303,894)</b>	
<b>Operating surplus</b>	<b>32,864,356</b>	<b>(23,147,612)</b>	<b>9,716,744</b>	<b>102,992,283</b>	<b>93,275,539</b>	
Fair value adjustments	(16,598,082)	(7,027,580)	(23,625,662)	-	23,625,662	50.20
<b>Surplus/ (deficit) for the year</b>	<b>16,266,274</b>	<b>(30,175,192)</b>	<b>(13,908,918)</b>	<b>102,992,283</b>	<b>116,901,201</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>16,266,274</b>	<b>(30,175,192)</b>	<b>(13,908,918)</b>	<b>102,992,283</b>	<b>116,901,201</b>	



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	-	-	-	3,582,735	3,582,735	51.21
Other financial assets	-	-	-	3,685,056	3,685,056	51.22
Operating lease asset	-	-	-	263,134	263,134	50.23
VAT receivable	-	-	-	24,314,779	24,314,779	51.25
Receivables from exchange transactions	-	-	-	58,712,776	58,712,776	51.26
Receivables from non-exchange transactions	-	-	-	139,432,756	139,432,756	
Cash and cash equivalents	-	-	-	11,640,553	11,640,553	51.27
	-	-	-	241,631,789	241,631,789	
<b>Non-Current Assets</b>						
Investment property	-	-	-	69,903,786	69,903,786	51.28
Property, Plant and Equipment	-	-	-	1,090,986,744	1,090,986,744	51.29
Other financial assets	-	-	-	357,325	357,325	51.31
	-	-	-	1,161,247,855	1,161,247,855	
<b>Total Assets</b>	-	-	-	1,402,879,644	1,402,879,644	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Finance lease obligation	-	-	-	1,133,200	1,133,200	51.32
Payables from exchange transactions	-	-	-	186,075,204	186,075,204	51.33
Unspent conditional grants and receipts	-	-	-	857,134	857,134	51.34
Provisions	-	-	-	11,292,783	11,292,783	51.35
	-	-	-	199,358,321	199,358,321	
<b>Non-Current Liabilities</b>						
Finance lease obligation	-	-	-	1,406,075	1,406,075	51.31
Employee benefit obligation	-	-	-	9,283,901	9,283,901	51.36
Provisions	-	-	-	57,529,053	57,529,053	51.37
Long Service Award	-	-	-	7,784,710	7,784,710	51.38
	-	-	-	76,003,739	76,003,739	
<b>Total Liabilities</b>	-	-	-	275,362,060	275,362,060	
<b>Net Assets</b>	-	-	-	1,127,517,584	1,127,517,584	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Revaluation reserve	-	-	-	84,700,463	84,700,463	51.39
Accumulated surplus	-	-	-	1,042,817,121	1,042,817,121	51.40

## Chief Albert Luthuli Local Municipality

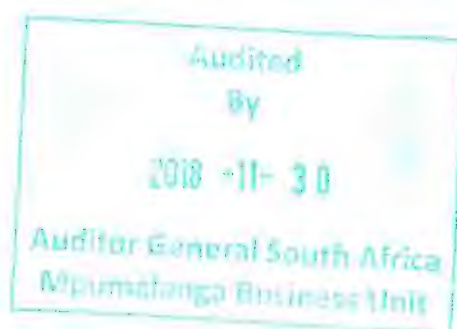
(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Statement of Comparison of Budget and Actual Amounts

#### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Total Net Assets	-	-	-	1,127,517,584	1,127,517,584	

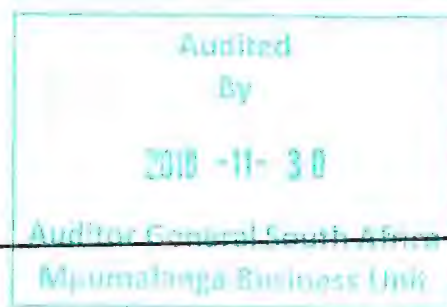


## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Accounting Policies



#### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

##### 1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

##### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

##### Impairment testing

The recoverable amounts or recoverable service amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

##### Value-in-use of cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value-in-use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

##### Value-in-use of non-cash generating assets:

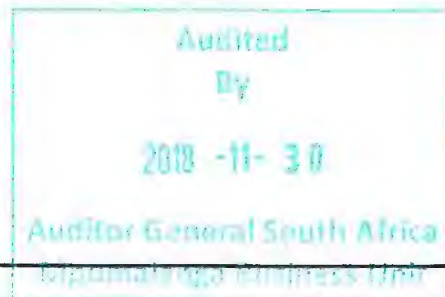
The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Accounting Policies



#### 1.2 Significant judgements and sources of estimation uncertainty (continued)

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14.

##### Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

##### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 15.

##### Effective interest rate

The municipality uses the government bond rate to discount future cash flows except where stated otherwise.

##### Allowance for impairment

For receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

#### 1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

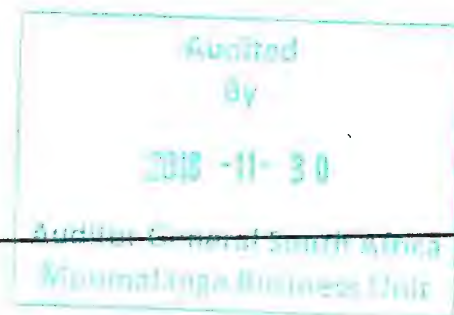


## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Accounting Policies



#### 1.3 Investment property (continued)

##### Fair value

Subsequent to initial measurement investment property is measured at fair value, refer to note 9.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss from the derecognition of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such difference is recognised in surplus or deficit when the asset is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note ).

#### 1.4 Property, Plant and Equipment

Property, Plant and Equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, Plant and Equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

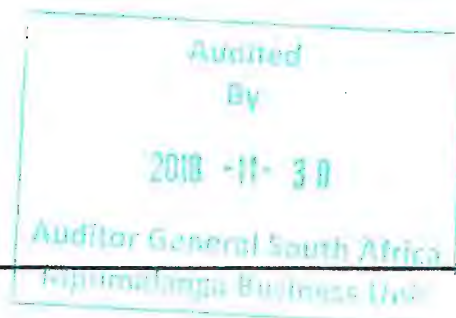


## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Accounting Policies



#### 1.4 Property, Plant and Equipment (continued)

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, Plant and Equipment is carried at cost less accumulated depreciation and any impairment losses except for land which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, Plant and Equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	10 - 50 years
Infrastructure	Straight line	15 - 80 years
Community	Straight line	10 - 50 years
Landfill site	Straight line	0 - 100 years
Other property, plant and equipment	Straight line	2 - 35 years
- Vehicles		
- Furniture		
- Leased assets		

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

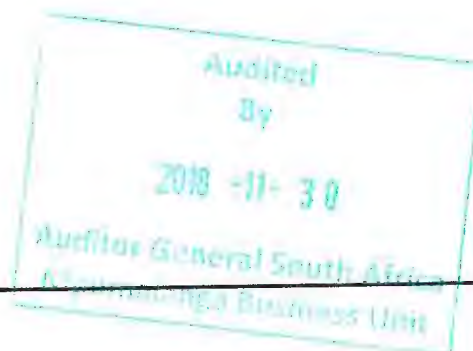
Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Accounting Policies



#### 1.4 Property, Plant and Equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

#### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

## **Chief Albert Luthuli Local Municipality**

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### **Accounting Policies**

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#### **1.6 Financial instruments**

##### **Classification**

The municipality classifies financial assets and financial liabilities into the following categories:

##### **Class**

Cash and cash equivalents

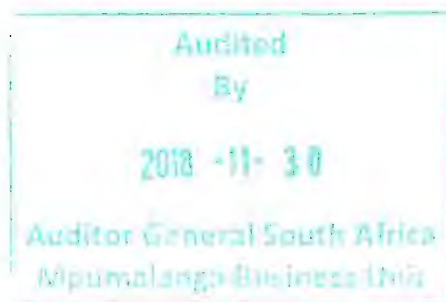
Trade receivables

Financial assets measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

##### **Initial recognition and measurement**

Financial instruments are initially recognised at fair value including any transactions costs.



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

#### Impairment and uncollectibility of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired. For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit. Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised. Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale. Financial assets impaired through use of an allowance account are recognised in surplus or deficit within operating expenses, when such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

#### Financial instruments designated as at fair value through surplus or deficit

All financial instruments are initially measured at fair value. The financial instruments are subsequently recognised at fair value through profit and loss.

#### Receivables from exchange transactions

Receivables from exchange transactions comprise of:

Consumer debtors Consumer receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is

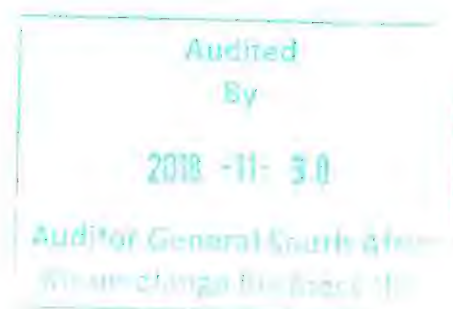
recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Consumer and other receivables are classified as loans and receivables.

#### Payables from exchange transactions

Payables from exchange transactions comprise of:

- Trade payables
- Payments in advance.





# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Accounting Policies

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### 1.6 Financial instruments (continued)

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently measured at amortised cost, using the effective interest method.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with bank and short-term highly liquid investments.

#### Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate

derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

#### Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

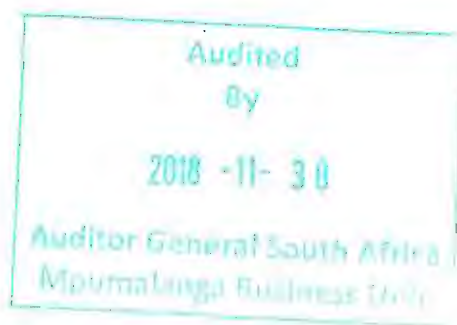
At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

#### Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.



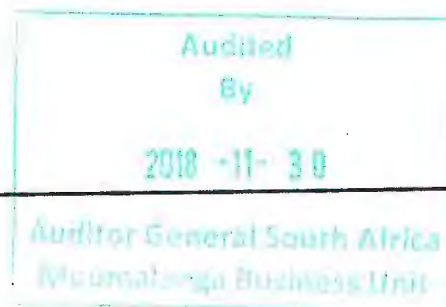


# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Accounting Policies



### 1.6 Financial instruments (continued)

#### Derecognition

##### Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

the rights to receive cash flows from the asset have expired;  
the municipality has transferred its rights to receive cash flows from the asset and either

- has transferred substantially all the risks and rewards of the asset, or
- has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

##### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and building elements, the municipality assesses the classification of each element separately.

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets in the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received.

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#### 1.7 Leases (continued)

##### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

#### 1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Water is regarded as inventories when the municipality purchases water in bulk with the intention to resell it to consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in water dams under the control of the municipality, that are filled by natural resources and that has not yet been treated, can not be measured reliably as there is no cost attached to the water, and is therefore not recognised as inventories.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### 1.9 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

#### 1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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#### 1.10 Impairment of cash-generating assets (continued)

##### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

##### Value-in-use

Value-in-use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value-in-use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

##### Discount rate

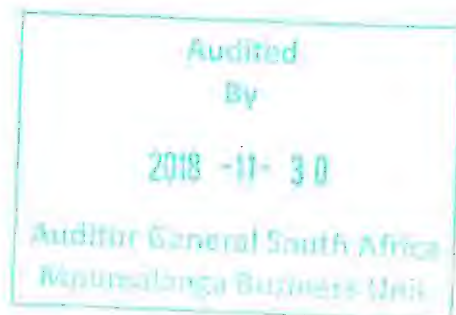
The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

##### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.



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### 1.10 Impairment of cash-generating assets (continued)

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value-in-use; and
- the future cash outflows used to determine the value-in-use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

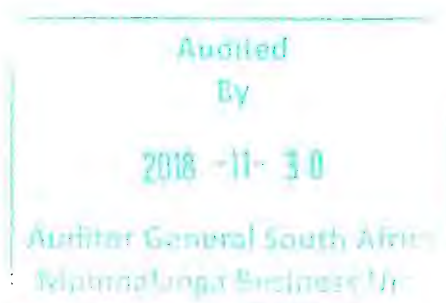
An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value-in-use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.





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### 1.10 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.11 Impairment of non-cash-generating assets

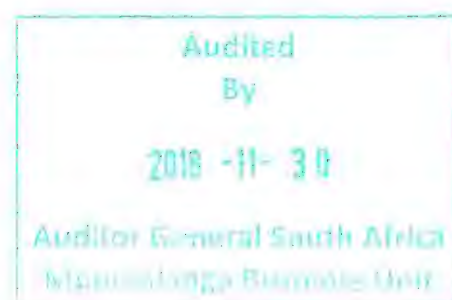
Non-cash-generating assets are assets other than cash-generating assets.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.



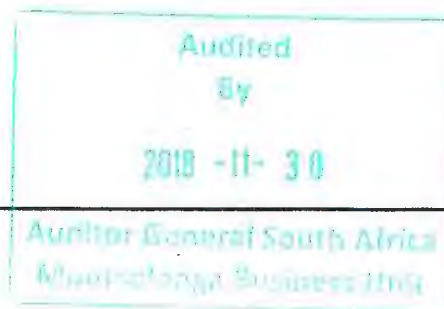


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### 1.11 Impairment of non-cash-generating assets (continued)

#### Value-in-use

Value-in-use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality will not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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#### 1.12 Employee benefits

##### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

Wages, salaries and social security contributions, Short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service; bonus and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service and non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

The entity recognise the expected cost of bonus and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when the entity has no realistic alternative but to make the payments.

##### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

##### Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

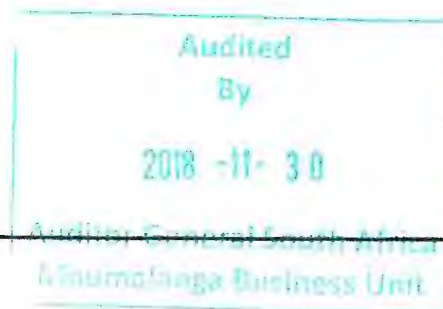
Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

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### 1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating expenditure.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

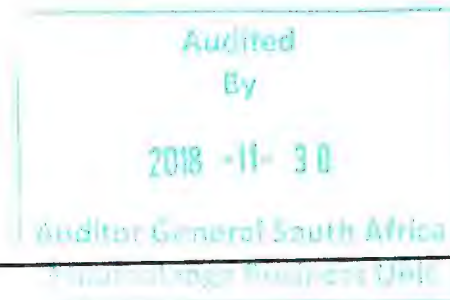


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#### 1.13 Provisions and contingencies (continued)

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

##### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit;
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

##### Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on municipalities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards; and
- fines or other penalties that are imposed for breaches of the legislation.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time.

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy, but does not yet have a present obligation to pay that levy.

#### 1.14 Discontinued operations

Discontinued operation is a component of the municipality that has been disposed of and:

- represents a distinguishable activity, group of activities or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- is a controlled entity acquired exclusively with a view to resale.

A component of the municipality is the operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the municipality.

#### 1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

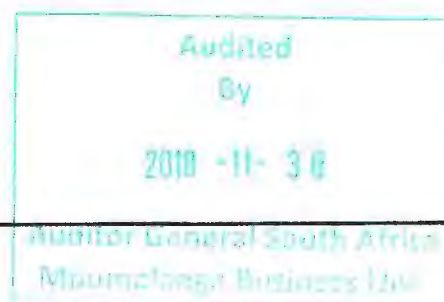


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### 1.15 Revenue from exchange transactions (continued)

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest, royalties and dividends

Revenue arising from the use by others of municipal assets yielding interest, royalties and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

### 1.16 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

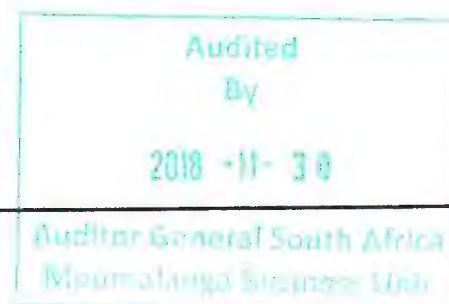
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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### 1.16 Revenue from non-exchange transactions (continued)

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

#### Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

#### Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue, is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exists in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

### 1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.18 Service concession arrangements: Grantor

A service concession arrangement is a contractual arrangement between a grantor (the municipality) and an operator in which:

- the operator uses the service concession asset to provide a mandated function on behalf of the municipality for a specified period of time; and
- the operator is compensated for its services over the period of the service concession arrangement.

A service concession asset is an asset used to provide a mandated function in a service concession arrangement that:

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### 1.18 Service concession arrangements: Grantor (continued)

- is provided by the operator which:
  - the operator constructs, develops, or acquires from a third party; or
  - is an existing asset of the operator.
- is provided by the grantor (municipality) which:
  - is an existing asset of the municipality; or
  - is an upgrade to an existing asset of the municipality.

An asset is provided by the operator, or an upgrade to an existing asset of the municipality is recognised as a service concession asset if:

- the municipality controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price;
- the municipality controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the asset at the end of the arrangement.

The municipality measures initially a service concession asset at its fair value.

The municipality recognises a liability where a service concession asset is recognised.

The liability is initially recognised at the same amount as the service concession asset, adjusted by the amount for any consideration from the municipality to the operator, or from the operator to the municipality.

Where the municipality has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition or upgrade of a service concession asset, the liability is accounted for as a financial liability in accordance with GRAP 104.

The payments made to the operator are accounted for according to their substance as:

- a reduction in the liability recognised;
- a finance charge; and
- charges for services provided by the operator.

Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments are allocated by reference to the relative fair values of the service concession asset and the services. If not, the service component of payments is determined using valuation techniques.

Where the municipality does not have an unconditional obligation to pay cash or another financial asset to the operator, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the liability is accounted for as the unearned portion of revenue arising from the exchange of assets between the municipality and the grantor.

The liability is reduced and revenue recognised according to the substance of the service concession arrangement.

### 1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 53 for detail.

### 1.20 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.



## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Accounting Policies



#### 1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### 1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### 1.23 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credit against accumulated surplus when retrospective adjustments are made.

#### 1.24 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

#### 1.25 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments, which are disclosed in note 42.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed if both the following criteria are met:

- contracts are non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

#### 1.26 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

#### 1.27 Budget information

The approved budget is prepared on the accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01,July,2017 to 30,June,2018.

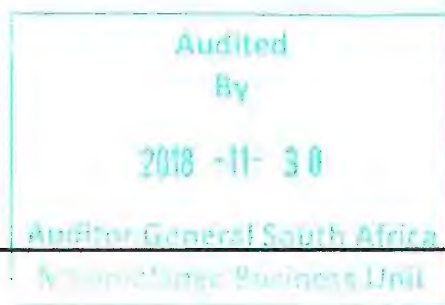


## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Accounting Policies



#### 1.27 Budget information (continued)

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

#### 1.28 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

#### 1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

#### 1.30 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

#### 1.31 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

Expenses are recognised as when they satisfy the definitions and recognition criteria for those elements in the Framework for the Preparation and Presentation of Financial Statements

#### 1.32 Additional Note

# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
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#### 2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

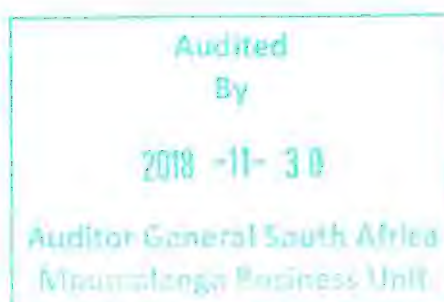
#### 2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01, July, 2018 or later periods:

#### 2.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01, July, 2018 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 18 - Segment reporting	1 April 2020*
• GRAP 20 - Related-party disclosures	1 April 2019*
• GRAP 32 - Service concession arrangements: grantor	1 April 2019*
• GRAP 34 - Separate financial statements	To be determined
• GRAP 35 - Consolidated financial statements	To be determined
• GRAP 36 - Investments in associates and joint ventures	To be determined
• GRAP 37 - Joint arrangements	To be determined
• GRAP 38 - Disclosure of interests in other entities	To be determined
• GRAP 108 - Statutory receivables	1 April 2019*
• GRAP 109 - Accounting by principals and agents	1 April 2019*
• GRAP 110 - Living and non-living resources	1 April 2020*



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>3. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	1,277	1,617
Bank balances	4,074,759	378,383
Call account	7,564,517	1,582,721
	<b>11,640,553</b>	<b>1,962,721</b>

### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30, June, 2018	30, June, 2017	30, June, 2016	30, June, 2018	30, June, 2017	30, June, 2016
Standard Bank - Account Type - 033-255-954	4,046,685	378,383	284,287	-	378,383	284,287
Standard bank - Investment - Account Type - 038478668-002	8,524	241,073	30,667	-	241,073	30,667
Standard Bank - Investment Account - 308654552-001	74,940	1,341,647	82,203	-	1,341,647	82,203
Standard bank - Investment - Account Type - 038478668-003	6,629,961	-	-	6,629,961	-	-
Standard bank - Investment - Account Type - 038478668-004	851,092	-	-	851,092	-	-
Standard bank - Cheque Account - 31686648	28,075	-	-	28,075	-	-
<b>Total</b>	<b>11,639,277</b>	<b>1,961,103</b>	<b>397,157</b>	<b>7,509,128</b>	<b>1,961,103</b>	<b>397,157</b>

### 4. Receivables from exchange transactions

#### Gross balances

Electricity	14,099,978	10,054,718
Water	15,562,863	9,375,822
Sewerage	51,204,114	44,581,325
Refuse	42,823,251	36,149,872
Magoveni	1,485,294	1,485,294
Shatadi	918,659	845,376
Other	23,724,729	19,289,085
	<b>149,818,888</b>	<b>121,781,492</b>

#### Less: Allowance for impairment

Electricity	(7,443,137)	(2,430,895)
Water	(6,587,824)	(4,361,478)
Sewerage	(34,456,107)	(31,227,715)
Refuse	(28,009,845)	(25,424,150)
Other (specify)	(14,609,199)	(11,485,122)
	<b>(91,106,112)</b>	<b>(74,929,360)</b>



# Chief Albert Luthuli Local Municipality

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Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>4. Receivables from exchange transactions (continued)</b>		
<b>Net balance</b>		
Electricity	6,656,841	7,623,823
Water	8,975,039	5,014,344
Sewerage	16,748,007	13,353,610
Refuse	14,813,406	10,725,722
Magoveni	1,485,294	1,485,294
Shatadi	918,659	845,376
Other (specify)	9,115,530	7,803,963
	<b>58,712,776</b>	<b>46,852,132</b>
<b>Water</b>		
Current (0 -30 days)	4,901,559	760,890
31 - 60 days	367,069	376,523
61 - 90 days	302,713	345,168
91 days	9,991,522	7,893,241
Less: Allowance for Impairment	(6,587,824)	(4,361,478)
	<b>8,975,039</b>	<b>5,014,344</b>
<b>Refuse</b>		
Current (0 -30 days)	911,138	856,250
31 - 60 days	803,695	776,713
61 - 90 days	764,269	701,229
91 days	40,344,149	33,815,680
Less: Allowance for Impairment	(28,009,845)	(25,424,150)
	<b>14,813,406</b>	<b>10,725,722</b>
<b>Sewerage</b>		
Current (0 -30 days)	906,396	913,890
31 - 60 days	759,846	816,580
61 - 90 days	715,492	724,173
90 days	48,822,380	42,126,682
Less: Allowance for Impairment	(34,456,107)	(31,227,715)
	<b>16,748,007</b>	<b>13,353,610</b>
<b>Electricity</b>		
Current (0 -30 days)	2,071,232	1,363,478
31 - 60 days	1,177,667	564,563
61 - 90 days	1,442,176	271,842
90 days	9,408,904	7,854,835
Less: Allowance for Impairment	(7,443,138)	(2,430,895)
	<b>6,656,841</b>	<b>7,623,823</b>





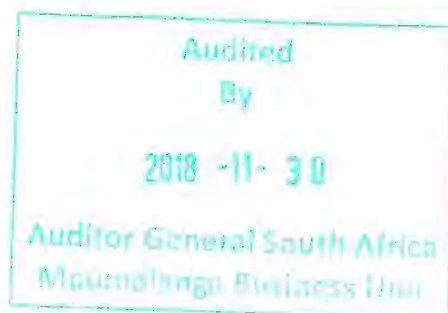
## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>4. Receivables from exchange transactions (continued)</b>		
<b>Other (specify)</b>		
Current (0 -30 days)	586,013	809,427
31 - 60 days	497,825	423,967
61 - 90 days	487,767	366,475
90 days	22,153,124	17,689,216
Less: Allowance for Impairment	(14,609,199)	(11,485,122)
	<b>9,115,530</b>	<b>7,803,963</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(74,929,360)	(68,465,049)
Contributions to allowance	(16,176,751)	(6,464,311)
	<b>(91,106,111)</b>	<b>(74,929,360)</b>



# Chief Albert Luthuli Local Municipality

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Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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### 4. Receivables from exchange transactions (continued)

#### Consumer debtors pledged as security

None of the consumer receivables were pledged as security.

None of the financial assets that are fully performing have been renegotiated in the prior year.

#### Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The municipality does not hold any collateral as security.

#### Receivables from exchange transactions past due but not impaired

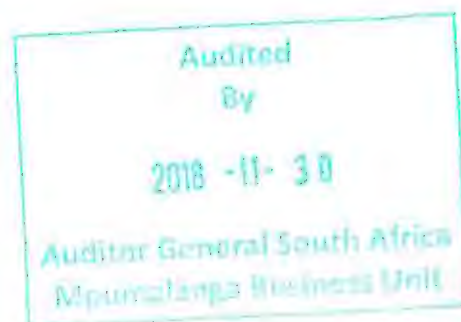
Receivables from exchange transactions in respect of government debtors are not considered to be impaired. At 30, June, 2018, R71,752,307 (2017: R49,084,919) were past due but not impaired.

#### Receivables from exchange transactions impaired

As of 30, June, 2018, receivables from exchange transactions of R147,414,935 (2017: R119,450,822) were impaired and provided for.

The amount of the allowance was R91,106,112 as of 30, June, 2018 (2017: R74,929,361).

<b>Magoveni</b>		
> 365 days	<u>1,485,294</u>	<u>1,485,294</u>
<b>Shatadi</b>		
> 365 days	<u>918,659</u>	<u>845,376</u>



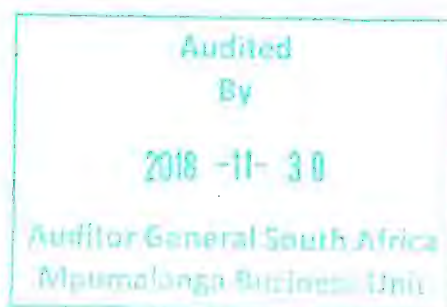
# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>Receivables from non-exchange transactions pledged as security</b>		
None of the receivables were pledged as security.		
<b>Credit quality of receivables from non-exchange transactions</b>		
The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.		
The municipality does not hold any collateral as security.		
Receivables from non-exchange transactions impaired		
As of 30 June 2018, receivables from non-exchange transactions of R 366,632,292 (2017: R366,632,292) were impaired and provided for.		
The amount of the allowance was R238,180,445 as of 30 June 2018 (2017: R238,180,445).		
<b>Summary of receivables by customer classification for receivables from exchange and non-exchange transactions</b>		
<b>Consumers</b>		
Current (0-30 days)	8,778,616	12,015,052
31-60 days	7,479,234	6,090,876
61-90 days	7,598,890	4,367,232
> 90 days	355,695,465	308,262,863
Less: Allowance for impairment	(283,352,056)	(245,497,270)
	<b>96,200,149</b>	<b>85,238,753</b>
<b>Industrial / Commercial</b>		
Current (0-30 days)	2,640,702	7,511,646
31-60 days	1,659,170	6,240,992
61-90 days	1,554,519	2,601,080
> 90 days	49,561,344	44,740,163
Less: Allowance for impairment	(41,909,540)	(45,348,495)
	<b>13,506,195</b>	<b>15,745,386</b>
<b>National and provincial government</b>		
Current (0-30 days)	10,823,047	8,830,424
31-60 days	2,693,549	8,797,409
61-90 days	2,569,662	1,259,417
> 90 days	55,666,049	30,197,570
	<b>71,752,307</b>	<b>49,084,820</b>
<b>Total</b>		
Current (0-30 days)	22,242,364	28,357,122
31-60 days	11,831,953	21,129,278
61-90 days	11,723,072	8,227,729
> 90 days	460,922,857	383,200,596
Less: Allowance for impairment	(352,915,764)	(313,109,805)
	<b>153,804,482</b>	<b>127,804,920</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at the beginning of the year	(313,109,805)	(257,981,103)
Contribution to provision	(70,028,039)	(55,128,702)



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>Receivables from non-exchange transactions (continued)</b>	<b>(383,137,844)</b>	<b>(313,109,805)</b>
<b>5. Receivables from non-exchange transactions</b>		
<b>Gross balances</b>		
Consumer debtors - Property Rates	398,649,058	339,832,322
Consumer debtors - Traffic fines	32,505,708	23,878,341
Consumer debtors - Staff debtors	2,320,089	309,717
	<b>433,474,855</b>	<b>364,020,380</b>
<b>Less: Provision for impairment</b>		
Consumer debtors - Property Rates	(261,809,652)	(215,916,404)
Consumer debtors - Traffic fines	(30,222,080)	(22,264,041)
	<b>(292,031,732)</b>	<b>(238,180,445)</b>
<b>Net balance</b>		
Consumer debtors - Property rates	136,839,405	123,915,918
Consumer debtors - Traffic Fines	2,283,628	1,614,300
Consumer debtors - Staff debtors	309,717	309,717
	<b>139,432,750</b>	<b>125,839,935</b>
<b>Traffic Fines</b>		
Current (0 -30 days)	237,485	1,908,465
31 - 60 days	136,175	1,397,855
61 - 90 days	112,380	2,115,204
91 - 120 days	32,019,668	18,456,816
Less impairment	(30,222,080)	(22,264,041)
	<b>2,283,628</b>	<b>1,614,299</b>
<b>Trade debtors</b>		
Current (0 -30 days)	2,713,670	2,611,312
<b>Staff debtor</b>		
91 - 120 days	309,717	309,717
<b>Property rates</b>		
Current (0 -30 days)	12,879,933	23,653,186
31 - 60 days	8,225,852	18,170,932
61 - 90 days	8,010,654	5,818,842
91 - 120 days	369,532,619	292,189,361
Less: Allowance for impairment	(261,809,652)	(238,180,444)
	<b>136,839,406</b>	<b>101,651,877</b>
<b>Total</b>		
Current (0 -30 days)	13,117,418	28,172,963
31 - 60 days	8,362,027	19,568,787
61 - 90 days	8,123,034	7,934,046
91 - 120 days	404,575,673	310,955,894
Less: Allowance for impairment	(292,031,732)	(238,180,444)
	<b>142,146,420</b>	<b>128,451,246</b>

Receivables from non-exchange transactions pledged as security



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>5. Receivables from non-exchange transactions (continued)</b>		
None of the receivables were pledged as security.		
<b>Credit quality of receivables from non exchange transactions</b>		
The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.		
The municipality does not hold any collateral as security.		
<b>Receivables from non-exchange transactions impaired</b>		
As of 30 June 2018, receivables from non-exchange transactions of R 433,868,436 (2017: R366,632,292) were impaired and provided for.		
The amount of the allowance was R292,031,732 as of 30 June 2018 (2017: R238,180,445).		
<b>Summary of receivables by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	8,778,616	12,015,052
31 - 60 days	7,479,234	6,090,876
61 - 90 days	7,598,890	4,367,232
91 - 120 days	387,377,504	308,262,863
	<u>411,234,244</u>	<u>330,736,023</u>
Less: Allowance for impairment	(311,006,223)	(245,497,270)
	<u><b>100,228,021</b></u>	<u><b>85,238,753</b></u>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	2,640,702	7,511,646
31 - 60 days	1,659,170	6,240,992
61 - 90 days	1,554,519	2,601,080
91 - 120 days	49,561,344	44,740,163
	<u>55,415,735</u>	<u>61,093,881</u>
Less: Allowance for impairment	(41,909,540)	(45,348,495)
	<u><b>13,506,195</b></u>	<u><b>15,745,386</b></u>
<b>National and provincial government</b>		
Current (0 -30 days)	10,823,047	8,830,424
31 - 60 days	2,693,549	8,797,409
61 - 90 days	2,569,662	1,259,417
91 - 120 days	55,666,049	30,197,570
	<u><b>71,752,307</b></u>	<u><b>49,084,820</b></u>
<b>Total</b>		
Current (0 -30 days)	22,479,849	28,357,122
31 - 60 days	11,968,128	21,129,278
61 - 90 days	11,723,072	8,227,729
91 - 120 days	527,647,951	383,200,596
	<u>573,819,000</u>	<u>440,914,725</u>
Less: Allowance for impairment	(383,137,844)	(313,109,805)
	<u><b>190,681,156</b></u>	<u><b>127,804,920</b></u>

# Chief Albert Luthuli Local Municipality

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Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>5. Receivables from non-exchange transactions (continued)</b>		
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(238,180,445)	(215,916,404)
Contributions to allowance	(53,851,287)	(22,264,041)
	<b>(292,031,732)</b>	<b>(238,180,445)</b>
<b>6. Inventories</b>		
Consumables	3,457,929	2,856,532
Water	124,806	116,430
	<b>3,582,735</b>	<b>2,972,962</b>
<b>6.1 Reconciliation of inventory movement</b>		
Opening Balance	2,972,962	2,509,045
Purchases	781,153	772,777
Utilised	(171,380)	(308,860)
<b>Closing Balance</b>	<b>3,582,735</b>	<b>2,972,962</b>
<b>Inventory pledged as security</b>		
At year-end no inventory has been pledged as security.		
<b>7. Investments</b>		
<b>Designated at fair value</b>		
RMB Momentum - Account number RU 500434741	256,948	237,615
End date: indefinite		
Sanlam: Guarantee Capital Fund - Policy number 9921774X7	100,377	93,097
End date: cover at death		
Stanlib Classic Investment Plan - Account number IP0006247	616,046	525,009
End date: indefinite		
Stanlib Extra Income Fund - Account number IP0006247	2,141,144	2,038,768
End date: indefinite		
	<b>3,114,515</b>	<b>2,894,489</b>
<b>Listed Investments at fair value</b>		
Listed shares	927,866	1,003,945
<b>Total other financial assets</b>	<b>4,042,381</b>	<b>3,898,434</b>
<b>Non-current assets</b>		
At amortised cost	357,325	330,712
<b>Current assets</b>		
At amortised cost	2,757,190	2,563,777
Listed investment at fair value	927,866	1,003,945
	<b>3,685,056</b>	<b>3,567,722</b>

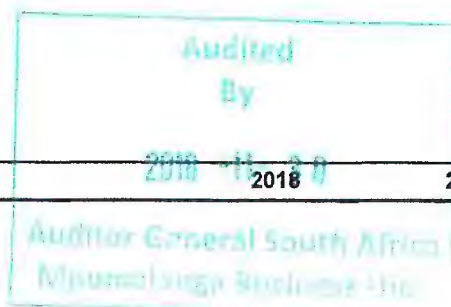
# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand



2017

### 7. Investments (continued)

#### Financial assets at fair value

##### Fair value information

Listed shares are carried at fair value.

The municipality owns 13,242 shares in Sanlam Limited which was trading at R70.07 (2017: R64.80) per share at each reporting period.

None of the financial assets that are fully performing have been renegotiated in the last year.

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

##### Credit quality of investments

The credit quality of financial assets are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

### 8. Operating lease asset

Current assets	263,134	614,739
Operating lease asset	263,134	614,739

At the reporting date the municipality has outstanding commitments under operating leases which fall due as follows:

#### Operating lease as lessor

Within one year	123,713	220,047
In the second to fifth year	139,421	394,692
	<b>263,134</b>	<b>614,739</b>

Operating lease asset represent rentals receivable by municipality for premise/properties rented out. The lease was negotiated for periods ranging from 2 months to 119 months. The rentals escalate on average between 5% and 10% per annum.

### 9. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	69,903,786	-	69,903,786	69,903,786	-	69,903,786

#### Reconciliation of investment property - 2018

	Opening balance	Total
Industrial and residential units	69,903,786	69,903,786

# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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### 9. Investment property (continued)

#### Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Investment property	54,082,100	15,821,686	69,903,786

#### Pledged as security

At year-end no investment property has been pledged as security.

#### Details of property

Investment properties mainly consists of industrial and residential units.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Details of valuation

The valuations were performed by an independent valuer, Valuers Afrika, who are not connected to the municipality. This valuation was based on the market value for existing use.

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	1,035,983	981,901
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### 10. Property, Plant and Equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	115,551,700	-	115,551,700	115,551,700	-	115,551,700
Buildings	8,366,715	(3,117,492)	5,249,223	12,453,558	(6,898,266)	5,555,292
Community	74,455,196	(11,990,352)	62,464,844	60,680,406	(10,761,761)	49,918,645
Infrastructure	1,303,232,385	(628,977,172)	674,255,213	1,283,596,150	(591,931,466)	691,664,684
Infrastructure work in progress	188,734,830	-	188,734,830	134,494,286	-	134,494,286
Landfill site	41,747,830	(8,389,831)	33,357,999	41,017,143	(5,938,030)	35,079,113
Other property, plant and equipment	26,123,081	(14,750,146)	11,372,935	26,277,008	(13,061,680)	13,215,328
<b>Total</b>	<b>1,758,211,737</b>	<b>(667,224,993)</b>	<b>1,090,986,744</b>	<b>1,674,070,251</b>	<b>(628,591,203)</b>	<b>1,045,479,048</b>





# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Property, Plant and Equipment (continued)

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	115,551,700	-	-	-	-	-	-	115,551,700
Buildings	5,555,292	-	-	-	-	(306,069)	-	5,249,223
Community	49,918,645	506,093	-	13,971,201	-	(1,931,095)	-	62,464,844
Infrastructure	691,664,684	9,222,520	(34,158)	10,455,671	-	(36,821,774)	(231,730)	674,255,213
Infrastructure work in progress	134,494,286	78,667,416	-	-	(24,426,872)	-	-	188,734,830
Landfill site	35,079,113	-	-	-	-	(1,721,114)	-	33,357,999
Other property, plant and equipment	13,215,328	1,211,599	(231,988)	-	-	(2,675,681)	(146,323)	11,372,935
	<b>1,045,479,048</b>	<b>89,607,628</b>	<b>(266,146)</b>	<b>24,426,872</b>	<b>(24,426,872)</b>	<b>(43,455,733)</b>	<b>(378,053)</b>	<b>1,090,986,744</b>

Audited  
By  
2018-11-30  
Auditor General South Africa  
Mabasa & Co. (Pty) Ltd

# Chief Albert Luthuli Local Municipality

(Registration number MP301)  
Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Property, Plant and Equipment (continued)

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers	Prior Year Error Adjustments	Depreciation	Impairment loss	Total
Land	115,691,700	-	-	(140,000)	-	-	115,551,700
Buildings	6,047,957	-	-	(157,756)	(317,776)	(17,133)	5,555,292
Community	29,915,917	11,223,309	12,920,209	(2,217,123)	(1,359,636)	(564,031)	49,918,645
Infrastructure	642,773,160	25,042,378	64,618,009	-	(36,648,101)	(4,120,762)	691,664,684
Infrastructure work in progress	168,558,536	82,175,141	(77,538,218)	(38,701,173)	-	-	134,494,286
Landfill site	36,800,225	-	-	-	(1,721,112)	-	35,079,113
Other property, plant and equipment	8,827,279	1,220,303	-	5,264,893	(1,913,513)	(183,634)	13,215,328
	<b>1,008,614,774</b>	<b>119,661,131</b>	<b>-</b>	<b>(35,951,159)</b>	<b>(41,960,138)</b>	<b>(4,885,560)</b>	<b>1,045,479,048</b>

Additional disclosure for work in progress per class of assets

#### Capital work in progress

##### Buildings

Buildings Community

##### Infrastructure

Main: Roads and Stormwater

Sewerage Mains and Purification

Main: Water and Purification

#### Total Capital Work in Progress

#### Expenditure incurred to repair and maintain property, plant and equipment

Infrastructure assets

Office furniture, equipment and tools

	2018	2017
Buildings Community	16,490,929	14,833,969
Infrastructure	172,208,741	119,660,315
Main: Roads and Stormwater	25,022,386	18,454,737
Sewerage Mains and Purification	26,271,066	17,004,569
Main: Water and Purification	120,915,289	84,201,009
<b>Total Capital Work in Progress</b>	<b>188,599,670</b>	<b>134,494,284</b>
Expenditure incurred to repair and maintain property, plant and equipment	13,784,136	13,903,187
Infrastructure assets	1,319,566	1,793,811
Office furniture, equipment and tools	<b>15,103,702</b>	<b>15,696,398</b>



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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### 10. Property, Plant and Equipment (continued)

#### Pledged as security

None of the above property, plant and equipment have been pledged as security.

#### Revaluations

The effective date of the revaluations of land was 30 June 2016. Revaluations were performed by an independent valuer, Valuers Afrika. Valuers Afrika is not connected to the municipality.

These assumptions were based on current market conditions.

#### Change in estimate

In terms of the requirements of GRAP 17 the useful lives of all asset items were reviewed by management at year end. The remaining useful live expectations of some asset items differed from previous estimates. This resulted in a revision of some of the previous estimates which was accounted for as a change in accounting estimate. The effect of this revision is a decrease in the depreciation charges for the current period of 2018: R(843 145) (2017: R66,867).

#### Assets subject to finance lease (Net carrying amount)

IT equipment	1,791,467	1,791,467
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#### Details of property, plant and equipment

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 11. Payables from exchange transactions

1% social responsibility	7,773,783	6,956,675
Payroll accruals	2,770,573	2,430,131
Consumer deposits	458,957	568,827
Retentions	29,576,037	26,141,923
Other payables	694,394	699,143
Trade payables	134,940,699	177,685,865
Income received in advance	7,647,801	18,354,574
Unallocated deposits	2,285,240	1,620,660
	<b>186,147,484</b>	<b>234,457,798</b>

#### Consumer deposits:

Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid on consumer deposits held.



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>12. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	1,324,383	1,662,064
- in second to fifth year inclusive	1,487,674	2,320,302
	<u>2,812,057</u>	<u>3,982,366</u>
less: future finance charges	(272,782)	(465,658)
<b>Present value of minimum lease payments</b>	<u><b>2,539,275</b></u>	<u><b>3,516,708</b></u>
<b>Present value of minimum lease payments due</b>		
- within one year	1,133,200	1,398,030
- in second to fifth year inclusive	1,406,075	2,118,678
	<u><b>2,539,275</b></u>	<u><b>3,516,708</b></u>
Non-current liabilities	1,406,075	2,118,678
Current liabilities	1,133,200	1,398,030
	<u><b>2,539,275</b></u>	<u><b>3,516,708</b></u>

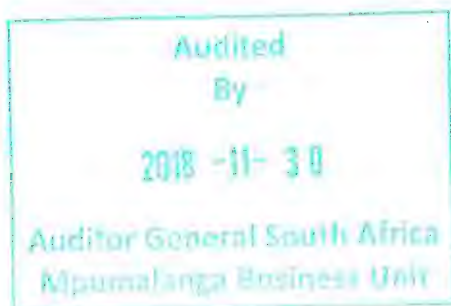
The average lease term is 3 years and the average effective borrowing rate is 9%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms and others escalate. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

Refer to note 10 for the carrying value of assets held under a finance lease.

## 13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

<b>Unspent conditional grants and receipts</b>		
Human settlement	357,432	357,432
Department of Local Government and Traditional Affairs	228,831	228,831
Department of Water and Forestry Affairs	-	-
Department of Arts and Culture	199,666	199,666
LG SETA Grants	71,205	296,429
	<u><b>857,134</b></u>	<u><b>1,082,358</b></u>
<b>Movement during the year</b>		
Balance at the beginning of the year	1,082,358	2,664,288
Additions during the year	133,903,179	119,583,972
Income recognition during the year	(134,128,403)	(119,094,104)
Unspent Conditional grant surrendered to National Treasury	-	(2,071,798)
	<u><b>857,134</b></u>	<u><b>1,082,358</b></u>





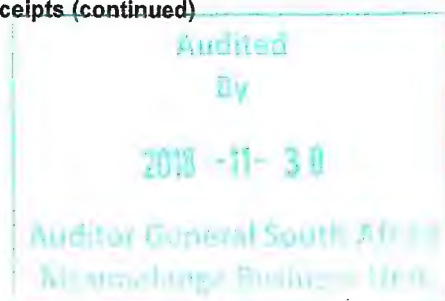
# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>13. Unspent conditional grants and receipts (continued)</b>		
Current liabilities	857,134	1,082,358
<b>Financial Management Grant</b>		
Balance at the beginning of the year	-	-
Current year receipts	1,700,000	1,625,000
Conditions met - transferred to revenue	(1,700,000)	(1,625,000)
	<u>-</u>	<u>-</u>



The grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

### Expanded Public Work Programme

Current year receipts	1,477,000	3,304,000
Conditions met - transferred to revenue	(1,477,000)	(3,304,000)
	<u>-</u>	<u>-</u>

The Expanded Public Works Programme is one of government's key programmes aimed at providing poverty and income relief through temporary work for the unemployed. The EPWP integrated grant for municipalities is intended to act as a supplementary source of funding for labour-intensive projects.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

### Department of Local Government and Traditional Affairs

Balance at the beginning of the year	228,832	228,832
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The grant is intended for the construction of the ring in Silobela which is funded by the department of Local government and Traditional Affairs.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

### Department of Water and Forestry Affairs

Balance at the beginning of the year	-	2,071,798
Current year receipts	35,000,000	20,500,000
Condition met - transferred to revenue	(35,000,000)	(20,500,000)
Unspent Conditional grant surrendered to National Treasury	-	(2,071,798)
	<u>-</u>	<u>-</u>

The grant is intended to fund bulk, connector and internal infrastructure of water services at a basic level of service.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

### Department of Arts and Culture

Balance at the beginning of the year	199,666	199,666
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## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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#### 13. Unspent conditional grants and receipts (continued)

The grant is intended to improve the social economic situation.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

#### Department of Energy

Balance at the beginning of the year

Current year receipts

Conditions met - transferred to revenue

-	-
7,000,000	958,000
(7,000,000)	(958,000)
-	-

The grant is intended to fund energy efficient lighting technologies in municipal building, street and traffic lighting infrastructure.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

#### Municipal Infrastructure Grant

Balance at the beginning of the year

Current year receipts

Condition met - transferred to revenue

-	-
88,616,000	90,197,000
(88,616,000)	(90,197,000)
-	-

The grant is intended to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.



## Chief Albert Luthuli Local Municipality

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Annual Financial Statements for the year ended 30, June, 2018

### Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>13. Unspent conditional grants and receipts (continued)</b>		
<b>Gert Sibande District Municipality</b>		
Balance at the beginning of the year	-	-
Current year receipts	-	2,124,000
Condition met - transferred to revenue	-	(2,124,000)
	<u>-</u>	<u>-</u>

The grant is intended to fund the project of the Emanzana bridge.

#### Human settlement

Balance at the beginning of the year	375,035	-
Current year receipts	-	2,817,500
Conditions met - transferred to revenue	-	(2,460,465)
	<u>375,035</u>	<u>357,035</u>

The grant was intended for highmast installation.

#### Municipal Systems Improvement Grant

<u>-</u>	<u>-</u>
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The grant is intended to assist the municipality in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and local government turnaround strategy.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

#### LG SETA Grant

Balance at the beginning of the year	296,428	163,993
Current year receipts	110,179	182,471
Conditions met - transferred to revenue	(335,403)	(50,036)
	<u>71,204</u>	<u>296,428</u>

The grant is intended for sending the staff of municipality for training by the corporate service.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.



## Annual Financial Statements for the year ended 30, June, 2018

Figures in Rand	2018	2017
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### Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Provision for rehabilitation	30,574,867	26,954,186	57,529,053
Provision	171,219	-	171,219
Leave	9,838,421	1,283,143	11,121,564
	<b>40,584,507</b>	<b>28,237,329</b>	<b>68,821,836</b>

	Opening Balance	Additions	Reversed during the year	Total
Provision for rehabilitation	25,079,221	5,495,646	-	30,574,867
Legal proceedings	171,219	-	-	171,219
Leave	10,173,909	-	(335,488)	9,838,421
	<b>35,424,349</b>	<b>5,495,646</b>	<b>(335,488)</b>	<b>40,584,507</b>

Non-current liabilities	57,529,053	28,003,641
Current liabilities	11,292,783	12,580,866
	<b>68,821,836</b>	<b>40,584,507</b>

Audited  
By  
2018-11-30  
Auditor General South Africa  
National Treasury and Finance Unit



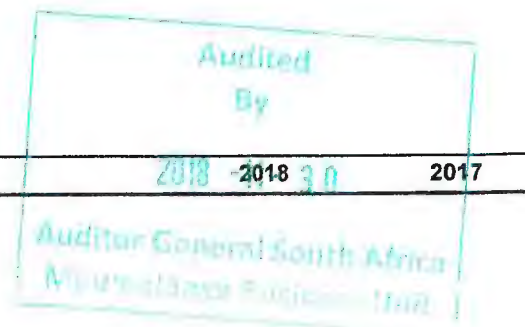
# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand



### 14. Provisions (continued)

#### Provision for rehabilitation

The municipality engages in waste disposal operations from residential and business areas within the following area:

- eManzanal
- Carolina
- Ekulindeni
- Elukwathini
- Empuluzi

It is required from the municipality to execute an environmental management programme to restore the landfill sites after its useful life. As such an assessment is required in order to calculate the landfill closure provision liability.

This assessment was performed using the General Landfill Closure Costing Model (GLCCM) that was developed by Mr Seakle Godschalk Pr Sci Nat, GIMFO and Dr Maryna Möhr-Swart, both partners in Environmental & Sustainability Solutions (ESS).

ESS has developed the GLCCM to estimate the final rehabilitation and closure costs for general landfills. The GLCCM is being updated in cooperation with Jones and Wagener Consulting Civil Engineers (Pty) Ltd, a company that is actively involved in rehabilitation and closure of landfill sites. The GLCCM standardises the determination of landfill closure costs between different landfills and for the same landfill over time. The GLCCM is based on the Minimum Requirements for Waste Disposal by Landfill of the Department of Water Affairs (1998), as amended by more recent regulations. The GLCCM provides a reliable best possible estimate of closure costs in terms of paragraph .49 of GRAP 19 or paragraph 36 of IAS 37.

The liability calculated using the GLCCM includes costs associated with:

- Pre-closure planning and approvals (four cost elements)
- Final rehabilitation and closure (seven cost elements)
- 30 years post-closure monitoring (seven costs elements)

Between 2011 and 2017, the GLCCM has been used to conduct 256 closure cost determination for 91 landfills controlled by 34 municipalities/entities spread over six provinces.

The landfill closure provision is calculated as the net present value of future cash flows.

#### Financial assumptions used

##### Unit costs

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation.

##### Consumer price index (CPI)

The CPI is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last quarter amounted to 4.4805%.

##### Discount rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

The rate most consistent with the remaining life of the landfills published at the end of the quarter that includes the financial year-end date was used.

# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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### 14. Provisions (continued)

- For landfills with an expected remaining life of three years or less, the rate associated with a maximum period of 3 years is used.
- For landfills with an expected remaining life of four of five years, the rate associated with a maximum period of 5 years is used.
- For landfills with an expected remaining life of more than five years, the rate associated with a maximum period of 10 years is used.

### Key financial assumptions used

	For Carolina (old) landfill	For Elukwathini, eManzana, Ekulindeni and Empuluzi landfills
CPI	4.4805 %	4.4805 %
Discount rate	6.9805 %	7.4805
Net effective discount rate	2.5000 %	3.0000 %

### Discounting of closure costs

The discounted value of the liability for the closure of the landfills is shown in the Table below:

Description	2017-2018 R	2016-2017 R
Landfill closure provision	57,529,054	30,574,868
Interest charge	2,555,551	2,059,476
	<b>57,529,054</b>	<b>30,574,868</b>

The landfill closure provision is calculated as the net present value of future cashflows.

The interest charge is calculated as the sum of the interest charges for all future cashflows calculated in the previous year and using the previous year's discount rate.



## Annual Financial Statements for the year ended 30, June, 2018

### Figures in Rand

**30,574,868**

**5,495,646**

**30.574.868**

58

# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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### 15. Employee benefit obligations

#### Defined benefit plan

#### Post retirement medical aid plan

#### Medical scheme arrangements

The municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

#### Contribution rate structure

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

#### Subsidy arrangements

There were no in-service members who are eligible for the post-retirement benefit.

Pensioners that are currently receiving post-employment retirement benefits do not match the SALGA policy in terms of the subsidy percentage. Therefore, it was decided that the current pensioners will be valued based on the actual subsidy that they are currently receiving, which is either a 70% or 100% subsidy of their total monthly medical aid contribution (this is based on the data provided). In addition, the subsidy payable is not limited to a monthly maximum amount per person for pensioners.

For the reason listed above, the increase in subsidy cap is not applicable.

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(9,283,901)	(9,587,082)
---	-------------	-------------

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	9,587,082	10,338,000
Interest Costs	819,535	990,000
Benefits paid	(769,892)	(786,350)
Actuary Loss(Gain)	(352,824)	(954,568)
	<b>9,283,901</b>	<b>9,587,082</b>





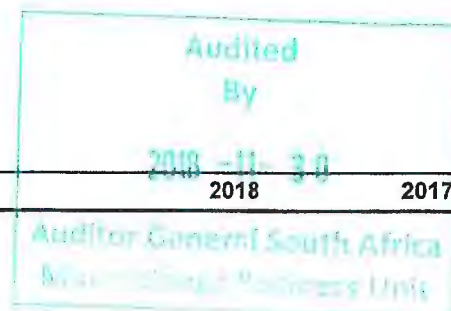
# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand



### 15. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date (2018 and 2017):

Discount rate:

CPI (Consumer price inflation):

Medical aid contribution inflation:

Net effective discount rate:

Yield curve

Difference between nominal and yield curves

CPI+1%

Yield curve based

#### Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

We used the nominal and real zero curves as at 30 June 2018 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period.

#### Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

#### Mortality rates

Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

#### Spouses and dependants

We assumed that the marital status of members who are currently married will remain the same up to retirement. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement.

#### Other assumptions

The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on the following would be:

#### The increase of 1% p.a. change in the medical aid inflation assumption is as follows:

	One percentage point increase	Current valuation percentage	One percentage point decrease
Total Accrued Liability	10,593,726	9,587,082	8,741,501
Interest cost	1,087,000	990,000	904,000
	<u>11,680,726</u>	<u>10,577,082</u>	<u>9,645,501</u>

The liability amounts for the current annual reporting period and previous three annual reporting periods are as follows:

	2018	2017	2016	2015
Present value of obligation	<u>10,042,145</u>	<u>9,587,082</u>	<u>10,338,000</u>	<u>10,865,000</u>

## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Notes to the Annual Financial Statements

Figures in Rand

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#### 16. Long service award accrual

As per government gazette an employee shall qualify for long service rewards in terms of leave days credits for the various periods of continuous service completed at the same employer as follows:

- After 5 years of service - 5 working days
- After 10 years of service - 10 working days
- After 15 years of service - 20 working days
- After 20 years of service - 30 working days
- After 25 years of service - 30 working days
- After 30 years of service - 30 working days
- After 35 years of service - 30 working days
- After 40 years of service - 30 working days
- After 45 years of service - 30 working days

The leave mentioned may be wholly or partially converted on the date on which an employee qualified or at any stage thereafter.

Long service benefits are awarded in the form of a number of leave days awarded once the employee completes a certain number of years in service.

#### Valuation of assets

The long service leave award liability of the municipality is unfunded. No dedicated assets had been set aside to meet this liability.



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand

2018

2017

### 16. Long service award accrual (continued)

#### Valuation of assets

#### Carrying value

Present value

#### Changes in present value

Opening balance

Current service cost

Interest cost

Benefits paid

Actuarial loss/(gain)



7,784,710

6,405,407

6,405,496

7,423,000

650,951

790,000

514,568

755,000

(710,456)

(667,326)

924,151

(1,895,178)

7,784,710

6,405,496

#### Long service award accrual (Continued)

Current service cost

Interest cost

Actuarial loss/(gain)

650,951

790,000

514,568

755,000

924,151

(1,776,154)

2,089,670

(231,154)

#### Key assumptions (2017 and 2016)

Discount rate:

8.5%

CPI (Consumer price inflation):

Difference between nominal and real yield curve

Normal salary increase rate:

Equal to CPI (6.32%) + 1%

Net effective discount rate:

2.05%

#### Average Retirement Age:

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

#### The effect of 1% p.a. change in the normal salary inflation assumption is as follow:

Total accrued liability

Current service cost

Interest cost

One  
percentage  
point increase

6,844,263

869,000

817,000

8,530,263

Current  
valuation  
percentage

6,405,487

790,000

755,000

7,950,487

One  
percentage  
point decrease

6,020,517

721,000

699,000

7,440,517

The cost of the long service awards is dependant on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the long service awards liability.

The interest cost is based on the discount rate assumption for the current valuation which is based on one point on the curve.

#### The amounts for the current annual reporting period and previous reporting period:

7,784,710

6,405,487

### 17. Revaluation reserve

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2016. Revaluations were performed by an independant valuer, Value Africa. Value Africa are not connected to the municipality.

The assumptions were based on current market conditions.

Opening balance

84,700,463

84,700,463

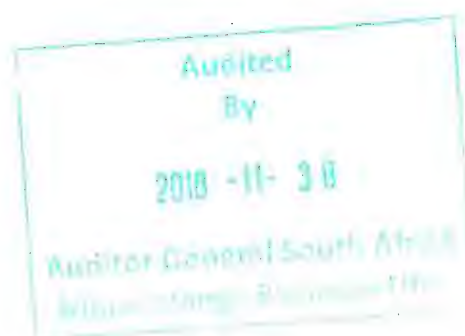
# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>18. Revenue</b>		
Government grants and subsidies	388,376,893	354,764,813
Service charges	62,663,352	37,640,820
Property rates	69,082,052	80,134,532
Interest received - consumers	33,407,122	14,837,164
Donations	10,000	642,926
Licences and permits	2,745	7,625
Fines	10,083,165	17,161,738
Interest received - investment	2,660,776	1,970,757
Other income	3,097,490	8,073,026
Rental income	1,176,541	843,265
Gain on disposal of assets	554,057	-
	<b>571,114,193</b>	<b>516,076,666</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	62,663,352	37,640,820
Interest received - consumers	33,407,122	14,837,164
Licences and permits	2,745	7,625
Interest received - investment	2,660,776	1,970,757
Other income	3,097,490	8,073,026
Rental income	1,176,541	843,265
Gain on disposal of assets	554,057	-
	<b>103,562,083</b>	<b>63,372,657</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	69,082,052	80,134,532
<b>Transfer revenue</b>		
Government grants and subsidies	388,376,893	354,764,813
Donations	10,000	642,926
Fines	10,083,165	17,161,738
	<b>467,552,110</b>	<b>452,704,009</b>
<b>19. Service charges</b>		
Sale of electricity	34,356,771	18,684,252
Sewerage and sanitation charges	6,526,695	7,736,086
Sale of water	13,115,871	4,249,085
Refuse removal	8,640,488	7,403,498
Other service charges	23,527	(432,101)
	<b>62,663,352</b>	<b>37,640,820</b>
<b>20. Rental income</b>		
<b>Facilities and equipment</b>		
Rental of facilities	1,176,541	843,265





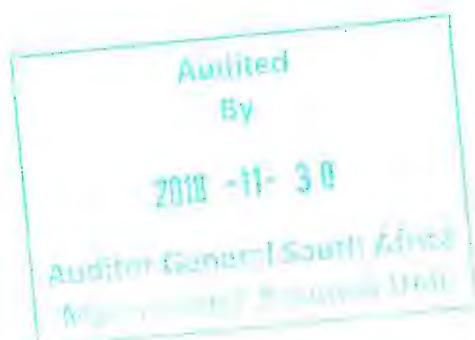
# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>21. Interest received - consumers</b>		
Interest - consumers	33,407,122	14,837,164
<b>22. Interest received - investments</b>		
<b>Interest revenue</b>		
Unlisted investments at amortised cost	2,660,776	1,970,757
<b>23. Licences and permits</b>		
Licences	2,745	7,625
Licensing Function was transferred to the Department of Community Safety, Security & Liaison effective from the 01 April 2016.		
<b>24. Other income</b>		
Billboard	1,283	-
Building plan fees	308,220	171,332
Burial fees	147,134	95,944
Certificate clearance	10,335	7,067
Photocopies	9,881	8,190
Connection services	99,572	190,285
Fire brigade fees	38,472	55,112
Insurance claims	-	81,113
Proof of residence	434,783	116,377
Sale of stands	180,683	504,921
Sundry fees	1,533,713	6,229,193
Tempering of meters	96,723	139,165
Refunds	14,117	11,224
Tender deposits	200,777	258,108
Posters	21,797	58,905
Unclaimed Dividends	-	145,863
	<b>3,097,490</b>	<b>8,073,028</b>



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>25. Property rates</b>		
<b>Rates received</b>		
Residential	59,805,353	78,802,053
Commercial	3,476,792	(7,701,944)
Government	5,799,907	9,034,423
	<b>69,082,052</b>	<b>80,134,532</b>
<b>Valuations</b>		
Residential	1,590,692,700	1,603,075,460
Commercial	613,470,900	612,925,900
State	1,712,977,000	2,009,152,600
Municipal	1,504,221,500	403,780,400
Agriculture	2,435,210,060	3,463,959,000
Other	1,833,807,920	1,587,634,920
	<b>9,690,380,080</b>	<b>9,680,528,280</b>

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2016. The valuations were performed by an independent valuer, Valuers Afrika, who are not connected to the municipality.

Interim valuations performed in the current year.

The new general valuation was implemented on 01 July 2016.

## 26. Government grants and subsidies

Please also refer note 13.

### Operating grants

Equitable Share	254,241,000	233,445,798
	<b>254,241,000</b>	<b>233,445,798</b>

### Capital grants

Municipal Infrastructure Grant	88,616,970	90,197,000
Department of Water and Forestry Affairs	35,000,000	20,500,000
Department of Energy	7,000,000	958,000
Expanded Public Works Programme	1,477,000	3,304,000
Finance Management Grant	1,700,000	1,625,000
Gert Sibande District Municipality	-	2,211,399
Department of Human Settlements	-	2,460,068
LG SETA	341,923	63,548
	<b>134,135,893</b>	<b>121,319,015</b>
	<b>388,376,893</b>	<b>354,764,813</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. Please refer to note 13.

## 27. Donations

Donations	10,000	642,926
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Gert Sibande District Municipality donated an amount of R10 000 during the financial year for the most improved municipality in terms of the Audit opinion.

## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>28. Fines</b>		
Traffic fines	<u>10,083,165</u>	<u>17,161,738</u>



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>29. Employee related costs</b>		
Acting allowances	1,375,253	1,294,999
Actuarial (gain)/loss	571,327	(954,568)
Bargaining council	43,090	41,019
Basic	92,518,747	87,410,330
Bonus	7,300,365	6,497,779
Housing benefits and allowances	1,508,361	1,617,548
Interest cost on actuarial valuations	1,985,054	639,822
Leave pay accrual	1,283,144	(334,234)
Medical aid	8,186,129	6,984,235
Overtime payments	3,574,667	3,229,950
Pension fund	17,573,549	16,377,898
Provident fund	702,678	541,560
Restday allowance	977,019	839,345
SDL	1,262,406	1,182,636
Standby allowances	9,321,001	4,197,763
Telephone allowances	88,800	58,800
Travel allowances	10,896,232	9,656,283
UIF	745,953	735,202
	<b>159,913,775</b>	<b>140,016,367</b>
<b>Remuneration of Municipal Manager: Mpila VN</b>		
Annual Remuneration	-	240,992
Travel Allowance	-	21,000
Contributions to UIF, Medical and Pension	-	74,013
Termination of Leave Payout	-	236,352
	-	<b>572,357</b>
<b>Remuneration of Chief Finance Officer: Nhlabathi MJ</b>		
Annual Remuneration	-	715,136
Travel Allowance	-	132,000
Contributions to UIF, Medical and Pension	-	79,579
Termination of Leave Payout	-	7,413
	-	131,469
	-	<b>1,065,597</b>
<b>Remuneration of Director: Technical Services: Modimogale MD</b>		
Annual Remuneration	-	775,759
Travel Allowance	-	77,000
Contributions to UIF, Medical and Pension	-	63,743
Termination of Leave Payout	-	73,458
	-	<b>989,960</b>
<b>Remuneration of Director: Corporate Services: Mndebele SF</b>		
Annual Remuneration	793,525	745,754
Travel Allowance	78,000	78,000
Contributions to UIF, Medical and Pension Funds	180,379	173,797
Rural Allowance	41,844	39,513
Acting Allowance	-	2,918
	<b>1,093,748</b>	<b>1,039,982</b>
<b>Remuneration of Municipal Manager: Dlamini MS</b>		
Annual Remuneration	750,354	125,658
Travel Allowance	240,000	37,000
Acting Allowance	-	53,970





# Chief Albert Luthuli Local Municipality

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Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>29. Employee related costs (continued)</b>		
Cellphone Allowance	24,000	4,000
Rural Allowance	51,166	8,047
Contributions to UIF, Medical and Pension	191,565	32,537
13th Cheque	106,646	-
	<b>1,363,731</b>	<b>261,212</b>
<b>Remuneration of Director: Community and Public safety : Shabangu JW</b>		
Annual Remuneration	777,255	533,803
Travel Allowance	78,000	130,655
Long Service Awards	-	18,432
Acting Allowance	5,599	141,488
Rural Allowance	37,194	8,781
Pro- rata Bonus	-	28,799
Contributions to UIF, Medical and Pension	83,986	129,606
Termination of Leave Payout	-	88,473
	<b>982,034</b>	<b>1,080,037</b>
<b>Remuneration of Director: Public Safety: Makgopa KB</b>		
Annual Remuneration	-	490,033
Travel Allowance	-	35,152
Contributions to UIF, Medical and Pension	-	151,059
Termination of Leave Payout	-	191,228
	<b>-</b>	<b>867,472</b>
<b>Remuneration of Director: Community Services: Mkhwanazi ZF</b>		
Annual Remuneration	-	141,689
Travel Allowance	-	22,273
Acting Allowance	-	2,797
Contributions to UIF, Medical and Pension	-	16,584
Termination of Leave Payout	-	120,269
	<b>-</b>	<b>303,612</b>
<b>Remuneration of Acting Director: Technical Services: Magubane MP</b>		
Annual Remuneration	494,691	460,778
Travel Allowance	150,144	148,206
Acting Allowance	303,178	37,451
Long Service Award	4,947	-
13th Cheque	41,224	38,398
Contributions to UIF, Medical and Pension	124,302	113,774
	<b>1,118,486</b>	<b>798,607</b>
Mr Magubane MP was acting as Director Technical Services as from 1 July 2017 to 30 May 2018		
<b>Remuneration of Acting Chief Financial Officer: Hlophe OG</b>		
Annual Remuneration	247,346	460,778
Travel Allowance	75,072	148,206
Acting Allowance	158,924	38,398
Long Service Award	-	18,432
13th Cheque	-	38,398
Contributions to UIF, Medical and Pension	80,554	149,564
	<b>561,896</b>	<b>853,776</b>
Mr Hlophe OG was acting as Chief Financial Officer as from 1 July 2017 to 31 Decemeber 2017		

# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>29. Employee related costs (continued)</b>		
<b>Remuneration of Chief Financial Officer: Mnisi MGT</b>		
Annual Remuneration	383,427	-
Travel Allowance	82,971	-
Rural Allowance	20,922	-
Contributions to UIF, Medical and Pension	62,147	-
	<b>549,467</b>	<b>-</b>

The Chief Financial Officer, Mr Mnisi MGT was appointed on 1 January 2018

### Remuneration of Director: Planning and Economic Development: Lukhele TA

Annual Remuneration	791,826	841,139
Travel Allowance	60,000	60,000
Rural Allowance	41,844	6,585
Contributions to UIF, Medical and Pension	200,483	114,553
Termination of Leave Payout	-	191,228
Acting Allowance	2,804	-
	<b>1,096,957</b>	<b>1,213,505</b>

The remuneration of staff is within the upper limits of the SALGA bargaining council determinations

### 30. Remuneration of councillors

Executive Mayor	852,377	760,239
Speaker	692,245	625,632
Chief Whip	652,037	554,230
Mayoral committee members	2,607,595	2,178,655
Councillors	13,751,114	11,226,299
	<b>18,555,372</b>	<b>15,345,055</b>

### In-kind benefits

The Executive Mayor is provided with a vehicle, driver, secretary, manager and personal assistant at the cost of the council.

The Chief Whip is provided with a secretary and personal assistant.

The Speaker is provided with secretarial support, a manager and personal assistant.

All the full time Mayoral committee members are provided with one secretary.

Members of municipal council should be remunerated within the upper limits as determined by the Department of Cooperative Governance and Traditional Affairs. Any deviations are disclosed as irregular expenditure.

### Remuneration of Councillors:

The remuneration of the political office bearers and councillors are within the upper limits as determined by the framework envisaged section 219 of the Constitution.

# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

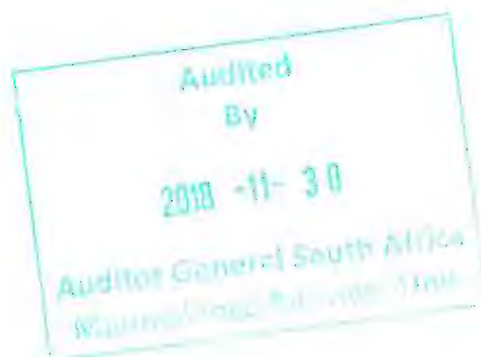
Figures in Rand

2018

2017

### 30. Remuneration of councillors (continued)

2018	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
<b>Executive Mayor</b>						
Nkosi D.P	695,394	-	49,932	100,519	6,532	852,377
<b>Speaker</b>						
Mngomezulu M.W	360,847	159,213	49,932	116,701	5,555	692,248
<b>Chief Whip</b>						
Sidu L.L	362,360	149,234	49,932	85,342	5,169	652,037
<b>Mayoral Committee</b>						
Nkosi S.Z	356,617	149,234	49,932	91,085	5,186	652,054
Makhubela N.V	370,224	149,234	49,932	77,478	5,147	652,015
Magagula P	362,207	149,234	49,471	85,495	5,165	651,572
Mnisi-Nkosi N	391,160	149,234	49,932	56,542	5,086	651,954
	<b>1,480,208</b>	<b>596,936</b>	<b>199,267</b>	<b>310,600</b>	<b>20,584</b>	<b>2,607,595</b>



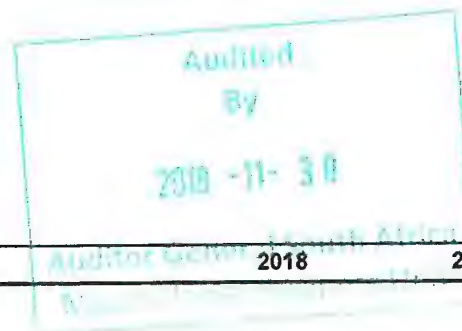
# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand



### 30. Remuneration of councillors (continued)

2018 Councillors	Annual remuneration	Travel allowance	Cellphone allowance	Pension and Medical Aid	SDL	Total
Cindi NR	172,126	65,254	49,932	23,636	2,526	313,474
Ginindza SV	364,472	148,004	49,471	89,586	5,259	656,792
Dludlu Z.M	222,887	7,235	49,932	30,894	2,503	313,451
Mbhele J.S	172,126	65,254	49,932	23,636	2,526	313,474
Motaung R.M	222,887	7,235	49,932	30,894	2,503	313,451
Mthombeni S.F	206,429	83,742	49,932	44,799	3,142	388,044
Ngubeni A	172,126	65,254	49,932	23,636	2,526	313,474
Nkosi A.D	172,126	65,254	49,932	23,636	2,526	313,474
Lubede E.J	172,126	65,254	49,932	23,636	2,526	313,474
Nkosi G.J	154,811	65,254	49,932	40,951	2,576	313,524
Nkosi J.S	212,067	83,742	49,932	39,160	3,126	388,027
Nkosi V.L	143,949	65,254	49,932	51,813	2,607	313,555
Shabangu L.D	220,895	83,742	49,932	-	3,378	357,947
Sikhakhane N.B	172,126	65,254	49,932	23,636	2,526	313,474
Simelane J.D	222,887	7,235	49,932	30,894	2,503	313,451
Thomo N.G	198,914	83,742	49,932	53,313	3,166	389,067
MJ Thabede	171,555	65,064	49,471	23,636	2,514	312,240
MS Mthembu	171,555	65,064	49,471	23,636	2,514	312,240
MA Malaza	171,555	65,064	49,471	23,636	2,514	312,240
BG Nkosi	157,089	65,064	49,471	38,102	2,556	312,282
RD Ngwenya	285,305	9,041	49,471	39,647	3,057	386,521
TS Nkosi	160,428	65,064	49,471	34,763	2,546	312,272
TB Nkosi	171,555	65,064	49,471	23,636	2,514	312,240
JD Shongwe	222,316	7,045	49,471	30,894	2,491	312,217
JJ Jeje	171,555	65,064	49,471	23,636	2,514	312,240
TJ Nkosi	222,316	7,045	49,471	30,894	2,491	312,217
NC Nhlabathi	171,555	65,064	49,471	23,636	2,514	312,240
MJ Khumalo	171,555	65,064	49,471	23,636	2,514	312,240
HLZ Mkhwanazi	154,240	65,064	49,471	40,951	2,564	312,290
GG Zulu	171,555	65,064	49,471	23,636	2,514	312,240
ZSG Ngoma	171,555	65,064	49,471	23,636	2,514	312,240
L Van Der Walt	136,859	65,064	49,471	58,331	2,614	312,339
ML Ntjana	193,079	40,312	49,471	26,864	2,502	312,228
KA Matshaba	207,850	7,045	49,471	45,360	2,533	312,259
PZ Hlabathi	222,316	7,045	49,471	30,894	2,491	312,217
FC Zwane	199,335	7,045	49,471	53,874	2,557	312,282
JCH Ndebele	157,184	55,163	49,471	47,908	2,575	312,301
SP Nkosi	171,555	65,064	49,471	23,636	2,514	312,240
W Zulu	206,668	7,045	49,471	46,542	2,536	312,262
TG Mbuli	217,747	5,522	45,783	30,894	2,396	302,342
ST Mnisi	169,841	64,492	48,088	23,636	2,479	308,536
DP Khoza	185,138	5,141	38,265	25,418	2,042	256,004
	<b>8,016,215</b>	<b>2,159,546</b>	<b>2,068,420</b>	<b>1,395,452</b>	<b>111,489</b>	<b>13,751,122</b>
<b>2017 Executive Mayor</b>	<b>Basic</b>	<b>Travel allowance</b>	<b>Cellphone allowance</b>	<b>Pension and Medical Aid</b>	<b>SDL</b>	<b>Total</b>
DP Nkosi	492,152	167,602	20,868	73,823	5,794	760,239
<b>Speaker</b>	<b>Basic</b>	<b>Travel allowance</b>	<b>Cellphone allowance</b>	<b>Pension and Medical Aid</b>	<b>SDL</b>	<b>Total</b>
Mngomezulu M W	346,125	150,188	20,868	103,539	4,912	625,632



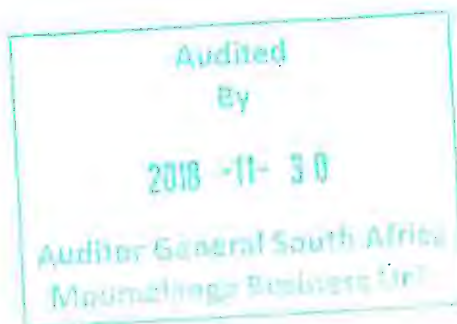
# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand					2018	2017
30. Remuneration of councillors (continued)						
Chief Whip	Basic	Travel allowance	Cellphone allowance	Pension and Medical Aid	SDL	Total
Sidu L L	333,738	132,272	20,868	63,077	4,276	554,231
Mayoral Committee	Basic	Travel allowance	Cellphone allowance	Pension and Medical aid	SDL	Total
Nkosi SZ	315,973	131,456	20,868	78,395	4,296	550,988
Makhubelo NV	332,872	130,732	20,868	63,169	4,231	551,872
Magagula P	310,651	124,523	18,600	62,918	4,025	520,717
Mnisi- Nkosi N	345,628	132,491	20,868	51,844	4,250	555,081
	1,305,124	519,202	81,204	256,326	16,802	2,178,658



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### 30. Remuneration of councillors (continued)

2017 Councillors	Basic	Travel allowance	Cellphone allowance	Pension and medical aid	SDL	Total
Cindi NR	149,009	57,120	20,868	22,351	1,951	251,299
Ginindza SV	280,667	116,627	18,600	69,212	3,811	488,917
Shiba BP	58,277	15,792	2,268	8,323	703	85,363
Nkosi SM	46,046	12,634	2,268	7,235	568	68,751
Thabethe QT	43,572	11,844	2,268	6,378	533	64,595
Mnisi N	44,006	11,844	2,268	5,944	532	64,594
Dludlu ZM	149,009	57,120	20,868	22,351	1,951	251,299
Hlatshwayno MG	18,212	4,760	2,268	1,863	226	27,329
Lubede EJ	149,009	57,120	20,868	22,351	1,950	251,298
Maduna ME	15,311	4,760	2,268	4,763	234	27,336
Makene J	23,372	6,109	2,268	2,390	283	34,422
Mayaba LM	18,212	4,760	2,268	1,863	226	27,329
Malaza STQ	18,212	4,760	2,268	1,863	226	27,329
Masuku BM	18,212	4,760	2,268	1,863	226	27,329
Mbhele JS	149,009	57,120	20,868	22,351	1,951	251,299
Mdluli NI	16,468	4,760	2,268	3,606	231	27,333
Mhlanga PP	18,212	4,760	2,268	1,863	226	27,329
Mkhabela EB	18,212	4,760	2,268	1,863	226	27,329
Motaung RM	149,009	57,120	20,868	22,351	1,951	251,299
Motha TW	18,212	4,760	2,268	1,863	226	27,329
Mthombeni SF	171,910	71,135	20,868	41,494	2,418	307,825
Neethling NE	20,075	4,760	2,268	-	261	27,364
Ngubeni A	149,009	57,120	20,868	22,351	1,951	251,299
Nkabinde NJ	16,263	4,760	2,268	3,812	231	27,334
Nkosi AD	149,009	57,120	20,868	22,351	1,951	251,299
Nkosi FE	18,212	4,760	2,268	1,863	226	27,329
Nkosi GJ	132,665	57,120	20,868	38,696	1,998	251,347
Nkosi JS	185,569	71,135	20,868	27,835	2,378	307,785
Nkosi MH	18,212	4,760	2,268	1,863	226	27,329
Nkosi MJ	18,212	4,760	2,268	1,863	226	27,329
Nkosi MN	18,212	4,760	2,268	1,863	226	27,329
Nkosi SJ	23,372	6,109	2,268	2,390	283	34,422
Nkosi VL	123,462	57,120	20,868	47,899	2,024	251,373
Ntuli FJ	18,212	4,760	2,268	1,863	226	27,329
Phakathi FDM	18,212	4,760	2,268	1,863	226	27,329
Shabangu LD	189,500	71,135	20,868	-	2,673	284,176
Sikhakhane NB	149,009	57,120	20,868	22,351	1,951	251,299
Simelani JD	149,009	57,120	20,868	22,351	1,951	251,299
Soko JP	14,707	4,760	2,268	5,368	236	27,339
Steenkamp ML	18,212	4,760	2,268	1,863	226	27,329
Thomo NG	169,085	71,135	20,868	44,319	2,426	307,833
Vilakazi RG	23,372	6,109	2,268	2,390	283	34,422
Zulu TW	18,212	4,760	2,268	1,863	226	27,329
Zwane TE	18,212	4,760	2,268	1,863	226	27,329
Thabaede MJ	137,492	47,600	18,600	20,354	1,737	225,783
Mthembu MS	135,692	47,600	18,600	20,354	1,737	223,983
Malaza MA	135,692	47,600	18,600	20,352	1,737	223,981
Nkosi BG	129,782	47,600	18,600	26,264	1,754	224,000
Ngwenya RD	172,710	61,087	18,600	25,910	2,164	280,471
Nkosi TS	115,337	50,912	18,600	37,398	1,789	224,036
Madonsela ZJ	95,560	36,631	13,383	14,334	1,251	161,159
Nkosi TB	135,692	47,600	18,600	20,354	1,737	223,983
Shongwe JD	135,692	47,600	18,600	20,354	1,737	223,983
Jele JJ	135,692	47,600	18,600	20,354	1,737	223,983
Nkosi TJ	135,692	47,600	18,600	20,354	1,737	223,983
Nhlabathi NC	135,692	47,600	18,600	20,354	1,737	223,983

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Figures in Rand

					2018	2017
<b>30. Remuneration of councillors (continued)</b>						
Khumalo MJ	132,813	50,912	18,600	19,922	1,739	223,986
Mkhwanazi HLZ	121,707	50,912	18,600	31,028	1,771	224,018
Zulu GG	135,692	47,600	18,600	20,354	1,737	223,983
Ngoma ZSG	135,692	47,600	18,600	20,354	1,737	223,983
Van Der Walt L	110,814	47,600	18,600	45,232	1,809	224,055
Ntjana ML	135,692	47,600	18,600	20,354	1,737	223,983
Matshaba KA	124,222	47,600	18,600	31,824	1,770	224,016
Hlabathi PZ	135,692	47,600	18,600	20,354	1,737	223,983
Zwane FC	117,469	47,600	48,600	38,576	1,790	254,035
Ndevele JCH	117,469	47,600	18,600	38,576	1,790	224,035
Nkosi SP	135,692	47,600	18,600	20,354	1,737	223,983
Zulu W	129,267	50,912	18,600	23,468	1,749	223,996
Mazibuko KM	120,395	46,152	16,861	18,059	1,576	203,043
Mbuli TG	24,835	9,520	3,478	3,725	325	41,883
Mnisi ST	99,340	38,080	13,912	14,901	1,301	167,534
Khoza DP	12,437	4,760	1,739	1,866	163	20,965
	<b>6,620,125</b>	<b>2,456,566</b>	<b>902,297</b>	<b>1,188,704</b>	<b>88,602</b>	<b>11,256,294</b>
<b>31. Depreciation and Impairments</b>						
Infrastructure					37,053,503	40,768,963
Community					2,024,647	1,923,666
Landfill site					1,721,114	1,721,109
Property, Plant and Equipment					317,007	334,909
Other property, plant and equipment					2,817,795	2,101,356
					<b>43,942,484</b>	<b>46,850,003</b>
<b>32. Finance costs</b>						
Rehabilitation of landfill sites					26,954,186	5,495,646
Trade and other payables					31,379	-
Finance leases					119,069	84,623
					<b>27,104,634</b>	<b>5,580,269</b>
<b>33. Rehabilitation provision movement</b>						
Landfill sites					26,954,186	5,495,646
<b>34. Debt impairment</b>						
Debt impairment					70,028,039	55,128,702
<b>35. Bulk purchases</b>						
Electricity					36,728,301	77,823,476
Water					7,479	8,120
					<b>36,735,780</b>	<b>77,831,596</b>

Electricity distribution losses are based on units purchased per invoices received from Eskom and units sold per prepaid reports and debtors system. It was determined to be R 4 060 974.29 (2017: R14 510 420.69) (72%) and 23 990 160.54 units (2017: 23 839 290.88 units) (73%) for the financial year ending 30 June 2018.

Water distribution losses are based on the kilolitres of water produced (7,336,577) and total water distributed (6,259,471) and the estimated loss (1,077,086) which is 14.68%

# Chief Albert Luthuli Local Municipality

(Registration number MP301)

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## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>36. Contracted services</b>		
Security services	18,262,939	15,854,912
Consultants	17,862,455	11,439,156
Operational contractors	3,769,853	3,991,596
Standby-contractors	603,520	642,956
Other contractors	188,018	1,912,552
	<b>40,686,785</b>	<b>33,841,172</b>
<b>37. Loss on disposal of assets</b>		
<b>38. General expenses</b>		
Advertising	248,334	372,109
Audit committee fees	201,748	76,750
Bank charges	415,105	508,930
Capacity building	-	167,000
Chemicals	8,324,869	8,115,767
Commission paid	149,644	2,756,219
Committee costs	3,155,491	2,405,000
Consumables (recoveries) cost	(219,764)	(296,484)
Convention bureau	1,218,474	1,708,816
Entertainment	79,316	79,849
External audit fees	3,166,285	4,257,812
Hostel charges	(1,178,119)	750,303
Insurance	2,238,454	6,307,423
Interview costs	15,134	59,518
Lease rentals on operating lease	537,296	822,307
Legal expenses	2,804,877	2,620,007
Licence fees	2,813,756	3,700,595
Local economic development	220,945	241,200
Magazines, books and periodicals	1,767,027	2,425,375
Motor vehicle expenses	3,567,005	3,761,851
Other expenses	3,385,410	4,168,744
Postage and courier	1,817,015	2,028,985
Printing and stationery	811,700	721,538
Spatial planning	4,950	4,070
Staff welfare	188,291	21,749
Subscriptions and publications	515,472	633,197
Telephone and fax	2,503,079	1,901,283
Transport and freight	1,741,531	11,050,454
Training	301,325	50,036
Uniforms and overalls	1,374,238	1,400,298
VIP toilets not capitalised	13,732,510	(40,832)
	<b>55,901,398</b>	<b>62,779,869</b>
<b>39. Fair value adjustments (loss) / gain</b>		
Investment property (Fair value model)	-	16,567,922
Investments	-	(86,230)
• Investments	-	<b>16,481,692</b>
<b>40. Auditors' remuneration</b>		
Fees	3,166,285	4,257,812





# Chief Albert Luthuli Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>41. Cash generated from operations</b>		
Surplus	102,992,283	88,548,345
<b>Adjustments for:</b>		
Depreciation and amortisation	43,837,995	46,738,563
Gain on sale of assets	(554,057)	-
Fair value adjustments	-	(16,481,692)
Finance costs - finance leases	-	84,623
Rehabilitation provision movement	26,954,186	-
Allowance for debt impairment	70,028,039	55,128,702
Finance cost	-	5,580,269
Actuarial loss on long service	571,326	(954,568)
Provision for leave	1,283,144	(334,234)
Interest on long service awards	1,985,054	-
<b>Changes in working capital:</b>		
Inventories	(609,773)	(463,917)
Receivables from exchange transactions	(67,444,109)	(21,301,840)
Other receivables from non-exchange transactions	(30,047,767)	(41,729,944)
Payables from exchange transactions	(48,310,313)	32,363,094
VAT	258,174	(20,393,691)
Unspent conditional grants and receipts	(225,224)	(1,581,930)
	<b>100,718,958</b>	<b>125,201,780</b>
<b>42. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Infrastructure	331,128,643	158,356,162
• Operational Capital	39,612,174	53,790,721
	<b>370,740,817</b>	<b>212,146,883</b>

This committed expenditure relates to infrastructure and community assets and will be financed by accumulated surpluses and extended funding.



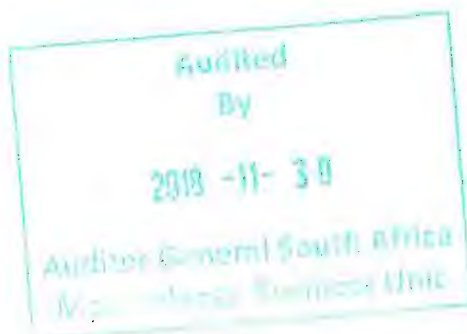
# Chief Albert Luthuli Local Municipality

(Registration number MP301)

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## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>43. Contingencies</b>		
<b>Litigations in the process against the Municipality relating to civil claims include the following:</b>		
Grand Valley Estates (Pty) Ltd	26,000,000	10,000,000
Lebea & Maduna	-	1,114,433
Germiston West CC	600,000	400,000
IFJ Properties	1,500,000	1,500,000
JM Mathebula	-	350,000
Memba Edwin Sibanyoni	115,886	-
Sukuma Mswati Communal Property	90,000	-
Mhlanga JF	115,000	170,000
Lerato Masilo	-	500,000
Silindile Mabuyakhulu	-	300,000
Sobek Engineering	-	5,693,769
Sifiso Thela	232,384	120,000
I @ Consulting	2,750,131	2,750,131
Minister of Water and Sanitation	4,500,000	260,000
Maximum Profit Recovery Pty Ltd	2,902,874	490,521
Nanati Enterprising and Civil Works	-	260,000
Khumalo Mantombi Martha obo Khumalo Sabelo Xolane	10,000,000	180,000
Alpheu Electrical Building and Civil Construction Pty Ltd	-	370,000
	<b>48,806,275</b>	<b>24,458,854</b>



### Grand Valley Estates (Pty) Ltd

This claim stems from the dispute over the farms around Badplaas. The plaintiffs are claiming loss of future income and goodwill while on the other hand the farms are a subject of claim in the Land Claims Commission. The Municipality is cited as party for failure to comply with various forms of legislation. The summons has been served to the Municipality on the 6th of July 2010. Management estimate of the financial exposure (legal cost) R1 500 000.

### Lebea and Maduna Consulting Engineering

The matter has been closed.

### Germiston West CC

An order was granted against the Municipality to take steps against (Cambridge Dlamini) and other occupiers of the property for an interdict to stop the building activities on this property and to proceed with the eviction of the occupiers on the property. the estimated legal costs are R600,000.

### JM Mathebula

The matter emanated from the claim that was brought by Mr. Mathebula against the Municipality after electricity disconnection at his business premises and as a result he alleges he has suffered a financial loss. the matter was settled out of court.

### Lerato Masilo

The action against the Municipality is for damages to the sum of R137,813 The plaintiff alleges that on 19 April 2014 the Municipality failed to maintain the Elukwatini main road and as a result her car drove into a large pot hole and was severely damaged. The matter was settled out of court.

### Silindile Mabuyakhulu

This matter has prescribed, three years has lapsed since the municipality recieved a letter of demand and no summons are issued.

### Sukuma Mswati Communal Property

On this matter the plaintiff is stoping the municipality to render services at thier farms. The estimated legal costs are R90,000

### Sfiso Thela vs Municipality

Plaintiff is suing council in respect of damages suffered as a result of a motor vehicle accident that occurred between his car and that of the council. The potential liability is estimated at R232,384.33. Management estimate of financial lexposure (legal cost) is R160 000.

# Chief Albert Luthuli Local Municipality

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## Notes to the Annual Financial Statements

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### 43. Contingencies (continued)

#### Mhlanga JF

The plaintiff is an employee who seeks to nullify the a disciplinary process, the estimated legal costs are R115,000

#### I @ consulting

On this matter the notice of intent to defend is drafted, Attorneys are awaiting the advocates confirmation on the consultation at the court. The potancial liability is estimated at R2,750,131.

#### Minister of Water and Sanitation

The Council is sued for R4,500,000 plus mora interest at a rate of 10.5% per annum from the date of issuing summon to the date of payment thereof, in respect of water use charges. The financial exposure (legal cost) is R290,000.

#### Maximum Profit Recovery Pty LTD

The applicant was seeking an interdict from Court Mandating Council to honour in terms of service agreement concluded between the parties. The financial exposure is R2,902,874. Management estimate of financial exposure (legal cost) is R284,155.75

#### Nanati Enterprising and Civil Works

The matter has been withdrawn.

#### Khumalo Mantombi Martha obo khumalo Sabelo Xolane

The Plaintiff is suing Council amount of R10,000,000 in respect of delictual claim. It is alleged that the child of the plaintiff was electrocuted and was severe burnt by a live electric cable which carries 400 to 415 volts and as direct consequences thereof, he sustain serious and permanent injuries on his body. The estimated legal costs are R265,000.

#### Alpheu Electrical building and Civil Construction Pty LTD

the matter has been withdrawn

### Contingent assets

Gelani Properties - The Municipality is claiming the land that belongs to them from Gelani Properties, Vos Viljoen Becker Incorporated. This matter is still pending due to the fact that the Municipality must appoint a land surveyor to rezone the land. The Legal costs are estimated at R60,000.

### 44. Related parties

#### Relationships

Accounting Officer

Refer to accounting officer's report note 29

No transactions were entered into with related parties to the municipalities and close family members during the year.

### 45. Risk management

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

# Chief Albert Luthuli Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand

### 45. Risk management (continued)

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

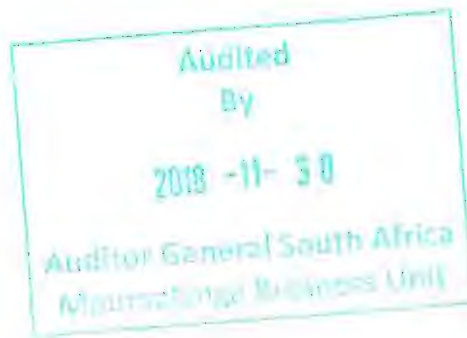
	2018	2017
Financial instrument		
Cash and cash equivalents	11,627,166	1,962,721
Receivables from exchange transactions	56,308,823	44,521,462
Receivables from non-exchange transactions	141,836,703	128,451,247
Other financial assets	3,685,056	3,567,722

### 46. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 47. Fruitless and wasteful expenditure

Opening Balance	18,118,783	14,131,195
Eskom - Interest	1,683,003	2,174,395
SARS: Interest and penalties	1,910,395	1,448,720
Auditor General	185,143	104,876
SARS VAT	-	77,969
Telkom	1,943	1,395
SALAPF	663	4,473
MCPF	2,521	-
Sanlam	17,370	53,067
NFMW	16,232	1,211
GEPP	201	-
MEPF	31,700	121,483
	<b>21,967,954</b>	<b>18,118,784</b>



The total fruitless and wasteful expenditure was referred to council for further investigation.

### 48. Irregular expenditure

Opening Balance	353,282,824	269,762,010
Add: Irregular Expenditure - current year	40,630,459	83,520,814
	<b>393,913,283</b>	<b>353,282,824</b>

#### Details of irregular expenditure – 2018

	Disciplinary steps taken/criminal proceedings	
Advert for less than prescribed period	none	6,287,694
Bid Adjudication Committee not complying with regulation 29(2)	none	19,095,247
Procurement process not followed	None	7,686,749
Not advertised on CIDB	None	787,100
Local Content not implemented	None	5,477,170
Non-compliance	None	1,296,499
		<b>40,630,459</b>



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 49. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to SALGA

Opening balance	5,681	14,290
Current year subscription / fee	86,180	82,037
Amount paid - current year	(80,498)	(76,356)
Amount paid - previous years	(5,681)	(14,290)
	<u>5,682</u>	<u>5,681</u>

#### Audit fees

Opening balance	5,711,161	3,136,061
Current year subscription / fee	2,026,158	4,772,836
Amount paid - current year	(2,040,860)	(2,006,758)
Amount paid - previous years	(4,744,717)	(190,978)
	<u>951,742</u>	<u>5,711,161</u>

#### PAYE and UIF

Opening balance	18,418,023	10,431,861
Current year subscription / fee	24,773,048	20,360,392
Amount paid - current year	(24,039,045)	(1,942,369)
Amount paid - previous years	(14,418,023)	(10,431,861)
	<u>736,021</u>	<u>18,418,023</u>

#### Pension and medical aid deductions

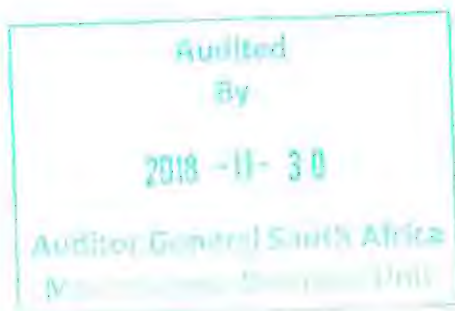
Opening balance	9,339,627	8,807,362
Current year subscription / fee	43,497,644	40,230,382
Amount paid - current year	34,158,016	(30,890,755)
Amount paid - previous years	(9,339,627)	(8,807,362)
	<u>9,339,627</u>	<u>9,339,627</u>

#### VAT

VAT receivable	<u>24,314,779</u>	<u>24,572,953</u>
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VAT output payables and VAT input receivables are shown in note 51.

All VAT returns have been submitted by the due date throughout the year.



# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 49. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30, June, 2018:

30, June, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Simelane JD	168	1,185	1,353
Mnisi TS	830	17,411	18,240
Mbuli TG	32	2,664	2,697
Jele JJ	203	1,211	1,434
Malaza MA	827	13,011	13,838
Zulu W	1,239	26,658	27,898
Shongwe JD	310	4,092	4,402
Shabangu LD	15,386	50,127	65,513
Thabethe MJ	308	3,898	4,206
Magagula MP	547	4,385	4,932
	<b>19,851</b>	<b>124,642</b>	<b>144,493</b>

30, June, 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Shabangu LD	51,575	11,766	63,328
Magula KE	5,203	173	5,376
Magagula MP	4,934	97	5,031
Mthembu SE	2,192	132	2,324
Madonsela KA	-	1,114	1,114
Shongwe JD	5,398	173	5,571
Mkhonza PB	3,540	277	3,817
Zulu LS	26,611	1,020	27,631
Malaza MA	12,434	616	13,050
Linda MB	5,198	108	5,306
	<b>117,085</b>	<b>15,477</b>	<b>132,548</b>



#### Supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Council. The expenses incurred as listed hereunder have been written Off.

<b>Incident</b>		
Sole Service Provider	6,000	73,359
Impractical	-	364,110
	<b>6,000</b>	<b>437,469</b>

# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 50. Budget differences

#### Material differences between budget and actual amounts

##### Revenue from exchange transactions:

##### 51.1 Service charges

Service charges increased due to installation of new smart meters on both electricity and water.

##### 51.2 Rental income

Due to operating leases that were reviewed

##### 51.3 Interest received - consumers

Increase is due to non payment of consumers and an increase in consumers/debtors

##### 51.5 Other income

The decrease is due to reduction in sundry fees collected

##### 51.7 Property rates

The decrease is due to rebates in line with the Property Rates Act

##### 51.8 Government grants and subsidies

Capital conditional grants (MIG, WSOG, INEP) recognised as revenue after the conditions of the grants were met

##### 51.9 Donations

The increase is due to unexpected donation received from the Gert Sibande District Municipality

##### 50.10 Fines

Renewal of lapsed approval from the National Director of Public Prosecutions in order to enable the Municipality to use manual and automatic speed cameras

##### 50.11 Employee related costs

As a result of an increase in overtime, stand allowances, medical aid, post retirement benefits and acting allowances, additionally, some posts were upgraded

##### 50.12 Remuneration of councillors

Increase is caused by the implementation of upper limits as pronounced by the Minister

##### 50.13 Depreciation and amortisation

The review of the useful lives of assets resulted in a higher depreciation than anticipated

##### 50.14 Finance costs

Interest was paid on outstanding invoices and provisions

##### 50.15 Allowance for debt impairment

Increase in debtors resulted in increase in debt impairment provision

##### 50.16 Repairs and maintenance

Continuous breakdown of aged dilapidated infrastructure

##### 50.19 General Expenses

Transfer of capital projects like VIP toilets various beneficiaries. It has also been caused by the electrification of households in an Eskom area of supply

##### 50.18 Contracted services

Service providers appointed as needed, on a risk basis, and payments done based on the collection rate

##### 50.6 Gain on disposal of assets

Redundant assets identified and disposed off during the year under review



## Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

### Notes to the Annual Financial Statements

Figures in Rand

#### 51. VAT receivable / (payable)

VAT	24,314,779	24,572,953
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VAT is payable on the cash basis. VAT is paid over to SARS only once payment is received from receivables. All VAT returns were submitted throughout the year.

#### 52. Prior period errors

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.





# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 52. Prior period errors (continued)

Statement of Financial Performance for the year ended 30 June 2017	Balance as previously reported	Prior period error	Restated balance
<b>Revenue</b>			
Service charges	37,640,818	-	37,640,818
Rental income	843,265	-	843,265
Interest received - consumers	14,808,090	29,074	14,837,164
Interest received - investment	1,970,757	-	1,970,757
Licences and permits (exchange)	7,625	-	7,625
Other income	8,073,026	-	8,073,026
Property rates	80,134,532	-	80,134,532
Government grants and subsidies	354,764,813	-	354,764,813
Donations	642,926	-	642,926
Fines	17,161,738	-	17,161,738
Fair value Adjustments	16,481,692	-	16,481,692
<b>Total revenue</b>	<b>532,529,282</b>	<b>29,074</b>	<b>532,558,356</b>
<b>Expenditure</b>			
Employee related costs	140,016,367	-	140,016,367
Remuneration of councillors	15,345,055	-	15,345,055
Allowance for debt impairment	55,128,702	-	55,128,702
Depreciation and amortisation	46,842,633	(104,489)	46,738,144
Finance costs	5,580,269	-	5,580,269
Repairs and maintenance	15,696,998	-	15,696,998
Bulk purchases	77,831,596	-	77,831,596
Contracted services	33,841,172	-	33,841,172
General expenses	53,698,145	11,611,752	65,309,897
<b>Total expenditure</b>	<b>443,980,937</b>	<b>11,507,263</b>	<b>455,488,200</b>
<b>Operating surplus / (deficit)</b>	<b>88,548,345</b>	<b>(2,811,855)</b>	<b>85,736,490</b>
<b>Surplus / (deficit) for the year</b>	<b>88,548,345</b>	<b>(2,811,855)</b>	<b>85,736,490</b>

Audited  
By  
2018 -11- 30  
Auditor General South Africa  
Mpumalanga Business Unit

# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

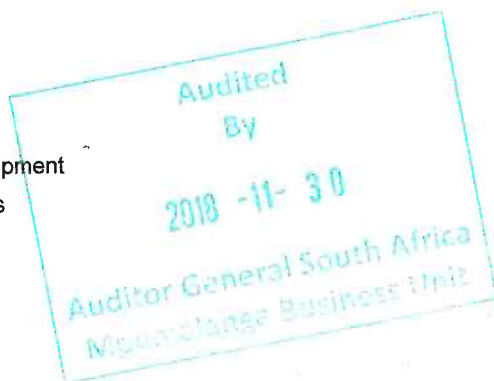
## Notes to the Annual Financial Statements

Figures in Rand

### 52. Prior period errors (continued)

Statement of Financial Position as at 30 June 2017

	Balance as previously reported	Prior period error	Restated balance
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	1,962,721	-	1,962,721
Receivables from exchange transactions	44,521,462	2,330,670	46,852,132
Receivables from non-exchange transactions	128,451,247	(2,611,312)	125,839,935
Inventories	2,972,962	-	2,972,962
Investments	3,567,722	-	3,567,722
Operating lease asset	614,739	-	614,739
VAT receivable	24,572,953	-	24,572,953
Total current assets	206,663,806	(280,642)	206,383,164
<b>Non-current Assets</b>			
Investments	330,712	-	330,712
Investment property	69,903,786	-	69,903,786
Property, plant and equipment	1,086,695,099	(41,320,116)	1,045,374,983
Total non-current assets	1,156,929,597	(41,320,116)	1,115,609,481
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	234,457,801	-	234,457,801
Unspent conditional grants	1,082,358	-	1,082,358
Finance lease obligation	1,398,030	-	1,398,030
Provisions	12,580,866	-	12,580,866
Total current liabilities	249,519,055	-	249,519,055
<b>Non-current Liabilities</b>			
Finance lease obligation	2,118,678	-	2,118,678
Employee benefit obligation	9,587,082	-	9,587,082
Provisions	28,003,641	-	28,003,641
Long service awards	6,405,496	-	6,405,496
Total non-current liabilities	40,734,845	-	40,422,405
<b>Net Assets</b>			
Accumulated Surplus / (deficit)	983,258,988	(41,600,758)	941,658,230
Revaluation Reserves	84,700,463	-	84,700,463
Total net assets	1,067,959,451	(41,600,758)	1,026,358,693



# Chief Albert Luthuli Local Municipality

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Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 52. Prior period errors (continued)

#### Statement of Cash Flow as at 30 June 2017

##### Cash Generated from operating activities

##### Receipts

Service charges	54,840,233	-	54,840,233
Government grants and subsidies	353,182,882	-	353,182,882
Interest received - Investments	1,970,757	-	1,970,757
Interest income - consumers	14,808,090	-	14,808,090
Other receipts	26,631,913	-	26,631,913
	<u>451,433,875</u>	<u>-</u>	<u>451,433,875</u>

##### Payments

Employee related costs	(156,650,224)	-	(156,650,224)
Suppliers	(164,086,645)	-	(164,086,645)
Finance Costs	(5,495,646)	-	(5,495,646)
	<u>(326,232,515)</u>	<u>-</u>	<u>(326,232,515)</u>
<b>Net cash generated from operating activities</b>	<b><u>125,201,360</u></b>	<b><u>-</u></b>	<b><u>125,201,360</u></b>

##### Cash flow from investing activities

Purchase of property, plant and equipment	(119,661,129)	-	(119,661,129)
Movement in operating lease asset	(267,544)	-	(267,544)
Movement in investments	(439,007)	-	(439,007)
<b>Net cash flows from investing activities</b>	<b><u>(120,367,680)</u></b>	<b><u>-</u></b>	<b><u>(120,367,680)</u></b>

##### Cash flows from financing activities

Movement in provision	(676,400)	-	(676,400)
Finance lease receipts/(payments)	(2,592,843)	-	(2,592,843)
<b>Net cash flows from financing activities</b>	<b><u>(3,269,243)</u></b>	<b><u>-</u></b>	<b><u>(3,269,243)</u></b>

##### Net increase/(decrease) in cash and cash equivalents

Cash and cash equivalents at the beginning of the year	1,564,437	-	1,564,437
	<u>398,284</u>	<u>-</u>	<u>398,284</u>
<b>Cash and cash equivalents at the end of the year</b>	<b><u>1,962,721</u></b>	<b><u>-</u></b>	<b><u>1,962,721</u></b>

### 1. Work in Progress

Expenditure incorrectly capitalised under work in progress in the previous financial year.

#### Effect of the adjustment

Decrease in PPE	-	(38,701,173)
Decrease in Accumulated Surplus	-	27,089,421
Increase in General Expenses	-	11,611,752
	<u>-</u>	<u>-</u>

### 2. Other Property plant and equipment

An account for cost was incorrectly mapped to account of accumulated depreciation.

# Chief Albert Luthuli Local Municipality

(Registration number MP301)

Annual Financial Statements for the year ended 30, June, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 52. Prior period errors (continued)

#### Effect of the adjustment

Increase in Cost

Increase in Accumulated Depreciation

-	1,791,500
-	(1,791,500)
-	-

### 3. Buildings

Building were previously incorrectly classified as owner occupied property instead of Investment Properties and the Accumulated Depreciation was incorrectly recorded on the Cost account.

#### Effect of the adjustment

Decrease in Cost

Decrease in Accumulated Depreciation

-	(4,086,842)
-	4,086,842
-	-

#### Effect of the adjustment

Decrease in Accumulated Surplus

Decrease in Receivable from non exchange

-	309,717
-	(309,717)
-	-

#### Effect of the adjustment

Increase in Receivable from non exchange

Increase in Interest received- consumers

-	29,075
-	(29,075)
-	-

#### Effect of the adjustment

Decrease in PPE

Decrease in Accumulated Surplus

-	(2,618,943)
-	2,618,943
-	-



### 53. Unauthorised expenditure

Opening Balance

Unauthorised expenditure

Other

Write-Off

57,478,201	77,077,842
212,077	57,478,201
-	-
-	(77,077,842)
<b>57,690,278</b>	<b>57,478,201</b>

The report on unauthorised expenditure for prior year was submitted to Council for investigation. MPAC investigated and recommended that the expenditure be written-off.

### 54. Disposal of Assets

Council has taken a decision to dispose of insignificant assets.